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# INVENTING THE MARKET

*Smith, Hegel, & Political Theory*

LISA HERZOG



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UNIVERSITY PRESS

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# Abbreviations of works by Adam Smith and G. W. F. Hegel

## I WORKS BY ADAM SMITH

The Glasgow Edition of *The Works and Correspondence of Adam Smith*. Oxford: Clarendon Press; New York: Oxford University Press, 1976–1983.

(Used by permission of Oxford University Press, Inc.)

ED: ‘Early Draft of Part of The Wealth of Nations’, in Volume 5: *Lectures on Jurisprudence*, edited by R. L. Meek, D. D. Raphael, and P. G. Stein. Oxford: Clarendon Press; New York: Oxford University Press, 1978, 562–682, cited by section and paragraph.

HA: ‘The Principles which Lead and Direct Philosophical Enquires, Illustrated by the History of Astronomy’. Volume 3: *Essays on Philosophical Subjects*, edited by W. P. D. Wightman and J. C. Bryce, with Dugald Stewart’s ‘Account of Adam Smith’, edited by I. S. Ross, Oxford: Clarendon Press; New York: Oxford University Press, 1980, 31–106, cited by section and paragraph.

*Lectures* or LJ: Volume 5: *Lectures on Jurisprudence*, edited by R. L. Meek, D. D. Raphael, and P. G. Stein. Oxford: Clarendon Press; New York: Oxford University Press, 1978, cited by page number. LJ(A) refers to the report of 1762–63; LJ(B) to the report dated 1766.

Corr.: Volume 6: *Correspondence*, edited by E. C. Mossner and I. S. Ross. Oxford: Clarendon Press; New York: Oxford University Press, 1987, cited by the number of the letter.

LRBL: Volume 4: *Lectures on Rhetoric and Belles Lettres*, edited by J. C. Bryce. Oxford: Clarendon Press; New York: Oxford University Press, 1983.

*Theory* or TMS: Volume 1: *The Theory of Moral Sentiments*, edited by D. D. Raphael and A. L. Macfie. Oxford: Clarendon Press; New York: Oxford University Press, 1976, cited by book, chapter, section, and paragraph.

*Wealth* or WN: Volume 2: *An Inquiry into the Nature and Causes of the Wealth of Nations* (2 vols.), edited by R. H. Campbell and A. S. Skinner; textual editor W. B. Todd. Oxford: Clarendon Press; New York: Oxford University Press, 1976, cited by book, chapter, section, and paragraph.

## II WORKS BY G. W. F. HEGEL

### Works Published During Hegel’s Lifetime

PS: *Phenomenology of Spirit*, translated by A. V. Miller with analysis of the text and foreword by J. N. Findlay. Oxford: Clarendon Press, 1977, cited by paragraph numbers according to the Miller edition.

- Enc: *Logic* (Part I of the *Encyclopedia of the Philosophical Sciences*), translated by William Wallace with foreword by J. N. Findlay. Oxford: Clarendon Press, 1975.
- Philosophy of Nature* (Part II of the *Encyclopedia of the Philosophical Sciences*), translated by A. V. Miller with foreword by J. N. Findlay. Oxford: Clarendon Press, 1970.
- Philosophy of Mind* (Part III of the *Encyclopedia of the Philosophical Sciences*), translated by William Wallace, together with the *Zusätze* in Boumann's 1845 edition, translated by A. V. Miller and with foreword by J. N. Findlay. Oxford: Clarendon Press, 1971. Quoted by paragraph, 'Z' marks quotations from the 'Zusätze'.
- PR: *Philosophy of Right*, translated with notes by T. M. Knox. Oxford: Clarendon Press, 1942, quoted by paragraph. 'Z' marks quotations from the 'Zusätze' added by Eduard Gans. This translation has been checked against *Elements of the Philosophy of Right*, translated by H. B. Nisbet, edited by Allen W. Wood. Cambridge: Cambridge University Press. Some minor changes have been made. (Used by permission of Oxford University Press, Inc.)
- Hegel's Political Writings*, translated by T. M. Knox. Oxford: Clarendon Press, 1964, quoted by page number.

### Editions of Manuscripts and Lecture Notes

- Griesheim: Ilting, Karl-Heinz, G. W. F. Hegel, *Vorlesungen über Rechtsphilosophie 1818–1831. Vierter Band*. edited by Karl-Heinz Ilting. Stuttgart-Bad Cannstatt: Frommann-holzboog, 1974. This volume includes the lecture notes by K. G. v. Griesheim 1824/25.
- Hotho: Ilting, Karl-Heinz, G. W. F. Hegel, *Vorlesungen über Rechtsphilosophie 1818–1831. Dritter Band. Nach der Vorlesungsmitschrift von H.G. Hotho 1822/23* edited by Karl-Heinz Ilting. Stuttgart-Bad Cannstatt: Frommann-holzboog, 1974.
- Jenenser Realphilosophie I: Hegel, G. W. F., System of Ethical Life and First Philosophy of Spirit* [Jena 1802, 1803–4], edited and translated by Henry Siltan Harris and Thomas Malcolm Knox. Albany, New York: State University of New York Press, 1979.
- Jenenser Realphilosophie II: Hegel, G. W. F., Hegel and the Human Spirit: A Translation of the Jena Lectures on the Philosophy of Spirit (1805–6) with Commentary*, edited and translated by Leo Rauch. Detroit: Wayne State University Press, 1983.
- PH (Sibree): Hegel, G. W. F., *The Philosophy of History*, translated by J. Sibree. New York: Dover, 1956.
- PH (Nisbet): Hegel, G. W. F., *Lectures on the Philosophy of World History. Introduction*, translated by H. B. Nisbet with an introduction by Duncan Forbes. Cambridge: Cambridge University Press, 1975.

# Introduction: In Search of ‘The Market’

## 1.1 INTRODUCTION

Where would you go to see ‘the market’? To the trading floors of Wall Street? To your local farmers’ market on a Saturday morning? To a recruitment fair where large corporations and ‘high potential’ graduates court each other? To the famous tuna auctions in Tokyo? Or to the internet, to look up figures on aggregate supply and demand, production and consumption, currency rates and foreign trade?

These are all instances and aspects of ‘markets’, but when we talk about ‘the market’, we mean something more. We mean the complex system in which people buy and sell, offering money, goods, labour, time, and abilities. We all participate in it, day by day, in our roles as workers, customers, or investors. As Adam Smith said, more than two hundred years ago, in a post-feudal society ‘every man . . . lives by exchanging, or becomes in some measure a merchant’.<sup>1</sup> Our societies have, to a greater or lesser degree, become ‘market societies’;<sup>2</sup> they are differentiated societies whose economic sphere is characterized by individual property rights, the pursuit of self-interest, highly divided labour, and complex mutual interdependencies. Their economic sphere is a ‘market economy’ functioning according to its own laws and principles, rather than supervening on other social relations. While there is more than one political form that market societies can take on, certain political structures—in particular the rule of law—are necessary for markets to become widespread, and the political sphere can in turn be influenced by markets, especially financial markets. Thus, our societies receive their overall character to some degree from the existence of the market. Its presence has had a deep and lasting impact on our lives, on our material well-being, but also on our social relations, the way we spend much of our time, and the notions we use for describing success and failure.

Different images have been used to describe the market. For some, it is a monster, a demon devouring its own children like the god Kronos. For some, it is a huge machine that transports stuff from one place to another, evoking images of large industrial plants with innumerable tubes and conveyer belts. For others, it is a Darwinist jungle in which only the fittest survive—and for yet others, a huge

<sup>1</sup> WN I.IV.1.

<sup>2</sup> I use the term ‘market society’ as an umbrella term that covers the societies Smith and Hegel have written about as well as our own societies. Smith uses the term ‘commercial society’, or sometimes ‘civilized and commercial society’ (e.g. WN I.IV.1, V.I.III.II.52, V.III.5; ED II.11). Hegel speaks of the ‘system of needs’, which is part of ‘civil society’ (PR §182ff.).

sporting spectacle in which, through a wonderfully benevolent design of the rules, not only the winning team, but also everyone else involved profits.

These images, or the theories which evoke them, have been painted by very different kinds of thinkers. The market and its effects on individuals and societies have been described by philosophers and psychologists, historians and novelists. Most of all, of course, economists have dealt with markets. While the definition of economics as a science is itself contested, it is clear that markets and their structure are at its core.

Modern economics is in large part modelled on pre-relativist physics and works with abstract, mathematically based models. Its central focus is the question of efficiency, and the market is usually endorsed as an institutional arrangement that enables efficient outcomes. In basic textbook models, markets are often depicted as two lines cutting into each other, or as some curves that reach a maximum at the 'equilibrium point'. In more sophisticated approaches, the interdependence of different markets is modelled in complex mathematical equations that are calibrated by using data from the past. But the 2008 financial crisis has shown that this way of modelling has its inherent limits: only a handful of economists had realized that something was going wrong in the American housing and financial markets before it was too late. Many commentators have therefore called for a major shift in how to model complex economic phenomena, but the battle between the mainstream and the reformers is still ongoing.

Other schools—heterodox, as they are called—like Austrian economists, socio-economists or feminist economists have criticized many of these formal models and the focus on equilibrium states. These heterodox schools use less harmonious pictures to describe the market, and have often been much more critical of it than the mainstream. So far, however, they have not been able to make a major impact on how economics is conceived of, taught, and used for advising public policies.

But many questions about markets are not answered within the discipline of economics. Many interesting aspects of markets—for example, the nature of economic agency, the impact of the market on social relations, or its meaning for our understanding of freedom—are hidden in the premises of economic models and taken for granted when economists work with them. Often, a great deal of translation from jargon into everyday language is needed to bring out these implicit assumptions. And this is not surprising since these models have been built to answer different questions. Referring to the academic division of labour and the self-understanding of economics as different from other social sciences and philosophy, many economists have delegated the responsibility for more 'philosophical' questions to other schools of thought, if they recognize their legitimacy at all. To ask deeper questions about the meaning of the market and its impact on our lives—about its 'existential' side, one might say—one thus needs to bring in other disciplines.<sup>3</sup>

An obvious candidate for this task is political philosophy.<sup>4</sup> In particular, its contribution seems to be needed when one wants to ask not only *descriptive*, but

<sup>3</sup> Sometimes this is of course done by economists themselves. For examples of economists who have crossed disciplinary boundaries see n. 30 of this chapter.

<sup>4</sup> I use the terms 'political philosophy' and 'political theory' interchangeably in what follows.

also *normative* questions about what markets *should* look like and how we *should* relate to them. Markets are not just an aspect of individuals' private lives. Rather, they are social phenomena. They function within a structure of laws and institutions, such as property rights and a judicial system, which are the core business of political philosophers.<sup>5</sup> They have an impact on many political questions, including the realization of ideals such as equality, justice, and freedom. So it seems quite natural to expect that political theorists should have something to say about markets, building on, and maybe synthesizing, the insights not only of economists, but also of psychologists or sociologists who have explored other aspects of the economic world.

But the market has not figured prominently in the political theory of the last decades. This may be the result of a number of assumptions about the tasks of political philosophy and the nature of the market. John Rawls, in his pioneering study *A Theory of Justice*, defines the task of political philosophy as dealing with the 'basic structure' of society.<sup>6</sup> This 'basic structure' concerns the institutional framework *within which* markets operate. In a just society it makes sure that the distributive results of the economy accord with the principles of justice: the equal distribution of liberties and opportunities and the 'difference principle' that states that inequalities should lead to the greatest benefit for the least-advantaged members of society.<sup>7</sup> The focus of interest therefore points to these surrounding institutions, away from markets themselves. The implicit assumption made here, and arguably shared by many theorists *post-Rawls*, is that markets as such are not a normative issue, that they form a 'system'<sup>8</sup> the distributive results of which are determined by the rules by which it is restricted. But if all that matters about markets is their distributive outcome, it is quite understandable that *they themselves*, or the images one has of them, do not need special attention from a normative perspective, and that they are only touched upon at the most abstract level. One philosopher in the contractarian tradition, David Gauthier, goes as far as talking about the market as a 'morally free' zone, claiming that the need for morality arises precisely because the world is *not* a perfectly competitive market.<sup>9</sup> While this radical claim depends on his neo-Humean understanding of morality, the assumption that it is not the market but what *surrounds* it that should be treated in political theory seems to be widely shared. Often, the market seems to be the ghostly 'other' of the institutions political theorists focus on, something that needs to be tamed and restricted, but not itself made an issue.<sup>10</sup>

<sup>5</sup> Cf. also Debra Satz, *Why Some Things Should Not Be for Sale* (New York: Oxford University Press, 2010), 4.

<sup>6</sup> John Rawls, *A Theory of Justice* (Cambridge, MA: Belknap Press of Harvard University Press, 1971), e.g. 6f.

<sup>7</sup> Rawls, *A Theory of Justice*, 60, 303.

<sup>8</sup> Cf. e.g. Jürgen Habermas's account: the market is described as part of 'the system', which is opposed to the 'life world' (*Theorie des kommunikativen Handelns* (Frankfurt am Main: Suhrkamp Verlag, 1981), vol. II, chap. VI.2).

<sup>9</sup> David Gauthier, *Morals By Agreement* (Oxford: Clarendon Press, 1976), 84.

<sup>10</sup> A number of themes related to the meaning of the market can be found in so-called poststructuralist thinkers (e.g. Gorz, Baudrillard, or Lyotard; for an overview and discussion see Gary K. Browning and Andrew Kilmister, *Critical and Post-Critical Political Economy* (Basingstoke: Palgrave Macmillan, 2006). These thinkers are not taken into account in this study, not least because there are

Pluralist theorists of justice like Michael Walzer and David Miller, in contrast to the mainstream, describe the market as one social sphere among many, in which specific goods are conceived, created, and distributed according to its specific principles. Miller, for example, defends the principle of desert as principle of justice for the labour market.<sup>11</sup> However, a central focus of his theory, and even more of Walzer's *Spheres of Justice*, is not the market as such, but rather the question about the *boundaries* of the market—what Walzer calls 'blocked exchanges'.<sup>12</sup> The principle of exchange which reigns in the market must not take over in other spheres, as '[t]he morality of the bazaar belongs in the bazaar'—and *only* there.<sup>13</sup> The question about the limits of the market has indeed been raised by a number of thinkers in the last decades, such as Elizabeth Anderson,<sup>14</sup> Michael Sandel,<sup>15</sup> and Debra Satz.<sup>16</sup> They address the question whether, for example, surrogate motherhood, human organs, or military service should be 'commodified' in markets. Opening a microeconomics textbook or a recent issue of *Econometrica* will not get one very far in answering such questions; rather, a genuinely philosophical discussion is needed.

But the issue of markets matters not only for these specific questions. The basic thesis of this study is that how we see the market—as monster or machine, jungle or racing field—matters not only at the margins of political philosophy, but at its core. To make this impact visible we need not so much another technical consideration of markets. What we need is a *philosophical* consideration that takes into account the market's meaning for our lives. This not only helps to develop better political theories and to bring them closer to real-life questions, but it is also necessary for a better understanding of ourselves, as citizens of market societies, who have become, as Smith's line says, 'in some measure . . . merchant[s]'. What needs to be addressed is the meaning of markets for our identities, for our understanding of justice, and for the ways in which we are free or unfree.

These questions are as urgent today as ever they were. The financial crisis of 2008 has made clear how great the impact of the globalized economy on political processes and on the private lives of citizens has become. After the fall of communism, discussions about a large-scale alternative to capitalism have declined. It seems that in one way or other, we need to live with the market. But this leaves open a broad range of questions about how exactly to live with it, and how to deal with its effects on our societies. As both the intellectual and the real histories of capitalism show, it is no monolithic system, but can take on different

difficult methodological questions about how to relate their texts to those of the broadly liberal tradition.

<sup>11</sup> David Miller, *Principles of Social Justice* (Cambridge, MA: Harvard University Press, 2001), chap. VII–VIII. This topic will be taken up in chap. 5.2 of this volume.

<sup>12</sup> Michael Walzer, *Spheres of Justice. A Defense of Pluralism and Equality* (New York: Basic Books, 1983), chap. IV.

<sup>13</sup> Walzer, *Spheres of Justice*, 109.

<sup>14</sup> Elizabeth Anderson, *Value in Ethics and Economics* (Cambridge, MA: Harvard University Press, 1993).

<sup>15</sup> Michael Sandel, *What Money Can't Buy: The Moral Limits of the Markets*. The Tanner Lectures on Human Values. Delivered at Brasenose College, Oxford, 11 and 12 May 1998 [online] <<http://www.tannerlectures.utah.edu/lectures/documents/sandel00.pdf>> (accessed 8 June 2012).

<sup>16</sup> Satz, *Why Some Things Should Not Be for Sale*.

forms and a different character in different settings—and to some degree, these questions are up to us. As individuals and as political communities we need to decide how to relate to markets and how to realize different values with them or against them. To reflect about these possibilities, we need to discuss markets in all their dimensions and take their meaning and impact seriously. Therefore, markets need to be an issue for political philosophers.

In this situation, it pays to revisit the writings of those who thought about market society at its beginning, and invented the views of the market that still influence our lives, both as intellectual constructions and as institutions and practices that have flowed from them. Keynes coined the *bon mot* that '[p]ractical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist'.<sup>17</sup> When we act in markets, we all have some vague ideas about what this means and what effects it has—and it is likely that in one way or other ideas by 'some defunct economist' have become part of this set of assumptions. Political theorists, whose task it is to make explicit our ways of thinking about the social world, are not exempt from this danger.<sup>18</sup> An excellent way of addressing this problem is to reconsider those past thinkers whose ideas have contributed to shaping our present categories, ideas, and assumptions. Studying their thought is not 'history for history's sake', but helps to illuminate our own time, and allows us to relate to it in deeper, more conscious ways.

The strategy pursued in this study is to analyse, in a comparative perspective, the models of the market society developed by Adam Smith and Georg Wilhelm Friedrich Hegel. Both are among the most controversial, and most often misrepresented, thinkers of the last 250 years. If one takes a closer look at their writings, however, one cannot but be struck by the subtlety and richness of their views of the market, its meaning, and its relation to society as a whole. Smith and Hegel develop the prototype models for two ways of describing the market the influence of which is still very much with us. This study analyses and compares these two approaches, and shows in what ways they matter for central themes of political theory: identity and community, desert and justice, the relation between different dimensions of freedom, and the historicity of social institutions.

Adam Smith,<sup>19</sup> born in the Scottish town of Kirkcaldy in 1723, is often taken to be the 'father' of the science of economics. However, before publishing *An Inquiry into the Nature and Causes of the Wealth of Nations* in 1776, he was known as a professor of 'moral philosophy', in the wide sense in which this term was used in his day. His first book, *The Theory of Moral Sentiments*, had been much acclaimed on its publication in 1759. He had taught numerous subjects, including rhetoric, jurisprudence, logic, and 'natural theology' in Edinburgh and Glasgow. He had

<sup>17</sup> John Maynard Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), 383.

<sup>18</sup> I here follow Alasdair MacIntyre's arguments about the theory-ladenness of everyday social interaction and the continuity between our everyday ways of making sense of our lives and political theory's attempts to systematize them. See, in particular, Alasdair MacIntyre, 'The Indispensability of Political Theory', in Larry Siedentop (ed.), *The Nature of Political Theory* (Oxford: Clarendon Press, 1983), 17–33.

<sup>19</sup> On Smith's life see in particular Ian Simpson Ross, *The Life of Adam Smith* (Oxford: Clarendon Press, 1995) and Nicholas Phillipson, *Adam Smith: An Enlightened Life* (New Haven, CT: Yale University Press, 2010).



travelled to France as a private tutor to a young nobleman, where he had met the *crème de la crème* of the French Enlightenment, including the so-called 'physiocrats', who spearheaded the economic thought of the era. A lifelong bachelor and a member of numerous learned clubs and societies, he spent the last years of his life as commissioner of customs—a fact that should provide food for thought to those who want to recruit him to the ranks of the undifferentiated eulogists of the free market, usually quoting just one sentence from his large opus: the famous phrase about the self-interest of 'the butcher, the brewer, or the baker' that provides us with our dinner.

Smith's understanding of the market is, in many ways, the prototype for the 'classical liberal' approach to the market: the market creates riches and distributes goods and services to all members of society. It is a benevolent institution that leads societies to a state of opulence in which everyone is better off. In short, despite a number of preconditions and provisos, the market *solves* problems. This understanding of the market stands at the beginning of a narrative that includes thinkers like David Ricardo, J. S. Mill, F. A. von Hayek, and James Buchanan, and focuses on keywords such as individualism, property rights, and spontaneous order.<sup>20</sup> Especially in its 'Chicago' version this strand of economics has attracted considerable criticism, which has attacked Smith as if he were a co-conspirator of Chicago-style thinking. But contrary to the caricature that Smith has become, his endorsement of the market is not unconditional, and his views of human nature and social interaction are much richer than is usually assumed—a lot of what is missing in contemporary economics, as a result of its mathematization and specialization, can be found in Smith.<sup>21</sup> The blossoming of Smith scholarship in the last decades bears witness to the fact that he is an extremely interesting interlocutor for those who reflect on morality, human nature, and society today.<sup>22</sup>

Georg Wilhelm Friedrich Hegel<sup>23</sup> was born in 1770 as the son of a civil servant at the court of Stuttgart. He studied at the University of Tübingen, a 'hotbed' of German Idealism in the aftermath of the Kantian philosophical revolution. He was a private tutor before starting his university career in Jena in 1801, which was interrupted by years as editor of a daily journal and headmaster of a *Gymnasium*, and which then led him to Heidelberg and finally Berlin. Few of his writings—including the *Phenomenology of Spirit*, the *Encyclopedia*, and the *Philosophy of Right*—appeared in print during his lifetime, but numerous lecture notes, both by

<sup>20</sup> For aspects of the line from Smith to von Hayek see e.g. Lorenzo Infantino, *Individualism in Modern Thought. From Adam Smith to Hayek* (London: Routledge, 1998). For an analysis of the differences between Smith, Mandeville, Hume, and von Hayek, however, see Christina Petsoulas, *Hayek's Liberalism and Its Origins: His Idea of Spontaneous Order and the Scottish Enlightenment* (London: Routledge, 2001).

<sup>21</sup> For example, there are similarities between Smith and behaviour economics; see e.g. N. Ashraf, C. Camerer, and G. Loewenstein, 'Adam Smith, Behavioural Economist', *Journal of Economic Perspectives* 19 (2005), 131–45.

<sup>22</sup> One strand of theorizing that might be adduced as a more faithful heir to Smith than mainstream economics is the 'Freiburg School' of 'ordoliberalism', which includes authors like Walther Eucken or Wilhelm Röpke. Taking into account these contributions would, however, go beyond the scope of this study. The same holds for the thought of institutional economists like J. K. Galbraith or Elinor Ostrom.

<sup>23</sup> The classic account of his life is Karl Rosenkranz, *Georg Wilhelm Friedrich Hegels Leben* (Berlin: Duncker & Humblot, 1844); for a modern biography see Terry Pinkard, *Hegel* (Cambridge: Cambridge University Press, 2001).

himself and by his students, have been preserved and were edited in the 19th and 20th centuries. Hegel was one of the main representatives of German Idealism, and while the interest in his philosophy has ebbed and flowed, his importance for the history of European philosophy can hardly be denied—the disagreement being on whether his role was beneficial or not. Hegel has gained the reputation of ‘being one of the most abstruse and impenetrable of thinkers’,<sup>24</sup> obsessed with logical categories and the history of *Weltgeist*. But this cliché sits uneasily with the fact that he also had a very down-to-earth side to him. He was an avid reader of newspapers and journals, following the political events of his time with great interest. He thought deeply about the young science of economics that had started to flourish at the turn of the 19th century. A central question of his political philosophy is how to understand a society in which the market, a distinctly modern institution,<sup>25</sup> has a place. Hegel’s 1821 *Philosophy of Right* offers the prototype model of a market economy that is set free within its own ‘realm’, but limited by other institutions, in particular the state that stands above it. The market is here a necessary element of a modern society, embodying important values such as freedom—at least a certain kind of freedom—and individuality. But it is also deeply problematic: it unleashes powers that can disrupt the social order, and creates huge economic imbalances and inequalities. In short, the market, much as it is needed and valued, *creates* problems. A balance therefore needs to be found between giving it its proper due and limiting its impact.

The tradition that builds on these themes is less clear-cut than the classical liberal one, but it would include, for example, the German ‘historical school’ in economics<sup>26</sup> and the beginnings of sociology,<sup>27</sup> and there is a ‘family resemblance’ with what has been labelled ‘communitarianism’.<sup>28</sup> A second line leads from Hegel to British Idealism and from there to British social liberalism, for example, via Thomas Hill Green.

In the search for thinkers that can be questioned about the meaning of the market it is hard to find more suitable candidates. Smith and Hegel conceptualize a social world which, in many respects, looks very much like our own: a market society characterized by an exchange economy, in which social relations are fluid, rather than regulated by the static hierarchies of the feudal world. For Smith and Hegel, these phenomena were rather new, at least for their own countries. While

<sup>24</sup> This quote is from the blurb of Pinkard, *Hegel*.

<sup>25</sup> When using the word ‘modern’ in the course of this study, it is usually understood in a way that makes Smith and Hegel part of modernity. Both use the term as a self-description of their own historical periods in contrast to ‘ancient’ societies, i.e. the Greek city-states, the Roman Empire and the medieval world.

<sup>26</sup> For a line from Hegel to Schmoller see e.g. Birger Priddat, *Hegel als Ökonom* (Berlin: Duncker & Humblot, 1990), 175ff.

<sup>27</sup> Cf. e.g. Ole Goos, ‘Zur Reproduktion der Philosophie G. W. F. Hegels bei Georg Simmel und Emile Durkheim. Studien zu den Begriffen Kultur und Gesellschaft’, PhD diss. (University of Heidelberg, 2006) on the structural similarities between Hegel, Durkheim, and Simmel.

<sup>28</sup> It is striking that some of the most prominent thinkers of what has been called ‘communitarianism’, in particular Charles Taylor and Alasdair MacIntyre, have also made important contributions to Hegel scholarship. Some types of ‘heterodox’ economics that emphasize the social embeddedness and the cultural meaning of economic actions also show a ‘family resemblance’ to Hegelian thought (e.g. Amitai Etzioni’s ‘socioeconomics’, see e.g. *The Moral Dimension: Toward a New Economics* (New York: Free Press, 1988)).

Smith wrote before the first great wave of industrialization in Great Britain,<sup>29</sup> Hegel received the news about the development in the United Kingdom through newspapers and magazines, but the Germany of his day was still largely pre-industrial. Both studied the market society of their day with the alternative of pre-modern society at the back of their minds, endorsing, yet without taking for granted, the superiority of the modern model. Both, however, also shared a sense that this modern society was inherently stable, rather than being merely a transitional phase on the path towards other forms. Thus, for Smith and Hegel, what was at stake in moving towards a market society was not just a theoretical issue, but also something they experienced in their own lifetimes. Studying their writings can therefore help us to remind ourselves of what it actually is that we have become so used to, and to gain a critical distance from our current situation.

In addition, what makes their writings especially valuable for us is that they wrote at a time when the division of labour in *academic* matters had only just begun, allowing us to profit from their extraordinarily broad perspectives, which cover economics, social theory more widely, history, moral philosophy, and psychology, to name just the most relevant areas. Both Smith and Hegel are systematic thinkers who aim at integrating these different subjects and their different vocabularies into coherent accounts that describe the natural and the social world, and man's place in it, from a unified perspective. Smith and Hegel therefore ask questions which today are often lost in the divide between disciplines and faculties. Specialization certainly has many advantages, but its price is that questions that lie at the borderline of different subjects often receive less attention than those that are central to the self-understanding of a discipline. But this does not mean that they are less important, both from a theoretical perspective and with regard to the most urgent 'real-world problems'. Studying the broad intellectual systems of past thinkers is thus an opportunity to cross disciplinary borders. It helps to see certain problems and issues that otherwise remain invisible, and to reflect on how to further the dialogue between the disciplines.<sup>30</sup>

Given these facts, it is surprising that a systematic comparison of Smith's and Hegel's views on the nature and meaning of the market has not hitherto been undertaken. The only major study of these two thinkers is Norbert Waszek's 1988 *The Scottish Enlightenment and Hegel's Account of 'Civil Society'*.<sup>31</sup> It offers an extremely valuable and rich analysis of the transmission of Scottish thought into the German-speaking countries and Hegel's reaction to it. In its contextualist method, however, it refrains from taking into account Hegel's *political* thought—most notably, it explicitly omits his discussion of the state<sup>32</sup>—and thus cannot do

<sup>29</sup> Cf. e.g. C. P. Kindleberger, 'The Historical Background: Adam Smith and the Industrial Revolution', in Thomas Wilson and Andrew S. Skinner (eds.), *The Market and the State: Essays in Honour of Adam Smith* (Oxford: Clarendon Press, 1976), 3–25.

<sup>30</sup> Of course even in today's academic environment there is a small but stubborn group of thinkers who cross the boundaries between philosophy and economics. The most prominent example is maybe Amartya Sen; others (in the Anglophone world) include David Schmitz, Elisabeth Anderson, Dan Hausman, James Otteson, Jacob Levy, Jon Elster, Eric Schliesser, and Serena Olsaretti.

<sup>31</sup> *The Scottish Enlightenment and Hegel's Account of 'Civil Society'* (Dordrecht/Boston/London: Kluwer, 1988). Other commentaries on Hegel's relation to Smith can be found in works on Hegel's intellectual development (e.g. in Pinkard, *Hegel*, 52).

<sup>32</sup> Waszek, *The Scottish Enlightenment and Hegel's Account of 'Civil Society'*, 231.

justice to Hegel's model of a modern market society as a whole. In addition, it does not wish to make Smith's and Hegel's thought fruitful for contemporary problems in political theory; on the whole, Waszek's approach is historical rather than philosophical.

The reason why the potential of a systematic comparison of Smith and Hegel on the meaning of the market has not yet been recognized might lie in the history of their reception, which, again, is characterized by the division between academic disciplines. Smith has traditionally been seen as an economist, and the *Wealth of Nations* has often been read with the aim of finding the seeds of later economic theories. Philosophers have rediscovered Smith as one of their own only in the last decades of the 20th century; the mainstream perception, however, is still very much that of the 'father of economics' who is associated with neoliberal ideologies and therefore not taken seriously as a philosophical thinker. Hegel, on the other hand, is often seen as the prototype model of a German 19th-century philosopher, exhibiting the typical characteristics of a strange technical language and wild metaphysical fantasies, and although there has been a revival of interest in his thought in Anglophone philosophy in the last few decades, much scholarship is still only published in German. Smith and Hegel are thus made to look very different, but this says more about the ways in which the academic disciplines have developed since their times than about Smith and Hegel themselves. If one puts them into their historical and intellectual contexts, it quickly appears that the preconceptions that make them look so different are anachronistic clichés. It is the merit of Waszek's book to have shown the massive influence of Smith, and Scottish thought more generally, on Hegel. This study will confirm Waszek's central thesis in showing that Smith's and Hegel's views of the market and its place in society are much more similar than is often assumed. As befits the nature of a comparative study, however, the focus will also be on the ways in which they differ, and on their different premises with regard to human nature and the metaphysical bases of the social cosmos, which, in subtle ways, give their views of the market a rather different colour. Smith and Hegel are particularly suited for an in-depth comparative analysis because they stand at the two ends of a scale of views about how much scope the market should be given, while sharing the assumption that the market has *some* arguments in its favour and should be given *some* place in a well-ordered modern society.

This is also why Hegel rather than Marx has been chosen as the counterpart to Smith. Although Marx's writings on the market—which are influenced by Hegel's account—are full of inspiring insights, the modern market society is here diagnosed with the imminent implosion resulting from its internal contradictions, and is ultimately rejected. This has also given many later Marxian thinkers a reason for not treating the market in detail, as they hoped that it would be 'overcome' sooner rather than later. In Hegel's political theory, on the other hand, the problems and contradictions of the market are clearly seen, but they are analysed as capable of containment in a well-ordered society. Today, almost 150 years after the publication of Marx's *Capital*, the question whether markets can really be contained by political structures seems open again: after phases of a rather successful 'taming' of the market, in today's globalized world the influence of financial markets on national governments seems to be greater than ever. But it is nevertheless unclear whether a Marxian alternative that does *not* undermine civic and political

liberties, as happened in most communist countries, is available and indeed desirable. Smith and Hegel, despite the differences in their views, stand within a liberal tradition, broadly conceived, for which economic liberties are compatible with other kinds of liberties within a stable social whole. Analysing their thought, and in particular their more critical remarks, thus allows us to develop *internal* criticisms of the liberal tradition, which seek to reform and improve it, while sharing its fundamental commitments.<sup>33</sup> Given the current economic problems, such criticism seems urgently called for.

In line with what has long been a guiding assumption in liberal political thought, the focus of this study is on liberal societies considered as more or less closed systems. In recent years, there has been growing interest in questions of international justice, beyond the borders of the nation state. It is evident that these have a lot to do with markets, as the economic life of different states has more and more become entangled in the process of economic globalization. Different views of the market have different implications for how one sees this process. Nevertheless, it is useful first to focus on the role and significance of the market within one society, not only because nation states still play a considerable role in today's world, but also because this provides us with conceptual tools which can then be used for reflecting on international questions.

What emerges from the comparison of Smith and Hegel is a more nuanced and subtle view of how we can understand the nature and normative significance of the market and its role and place in a market society. It brings up a number of themes in their philosophy that have not been given the attention they deserve so far, for example the pervasiveness of 'contrivances of nature' in Smith, or the importance of the notion of *Bildung* for Hegel's view of the labour market. The comparison shows that both Smith and Hegel see the market as part of a differentiated society in which different logics of agency belong to different social spheres. It also shows, however, that metaphysical assumptions about the nature of cosmos and society lead them to different answers with regard to the precise place that the market should have in this framework.

The study as a whole, however, demonstrates and argues for a claim that goes beyond the interest in Smith and Hegel: it shows that how we think about the market matters, because it makes a crucial difference for a number of dimensions of what we take to be a society worth living in. If we do *not* make our assumptions about the market explicit, it is likely that we simply drag along vague ideas stemming from 'some defunct economist' and are influenced by them without realizing it. Opening up this field for discussion can thus help us to gain insights into our own assumptions and into our reasons for agreement and disagreement. This is desirable not only for political theorists, but also for anyone who reflects about his or her own life in a market society—when thinking, for example, about the justice of how much we earn, about having or being 'human capital', and about the kinds of freedom that the market gives us. The better we see what the market can or cannot do for us, the better we can recognize what can be done to build on its strengths, and to mitigate its problems.

<sup>33</sup> On Smith cf. similarly Ralph Lindgren, *The Social Philosophy of Adam Smith* (The Hague: Nijhoff, 1973), xiv.

A guiding theme of this study is the contrast between seeing the market as a natural ‘problem solver’, as Smith does, broadly speaking, and seeing it as a specific historical achievement made possible by human institutions, which embodies certain valuable principles, but also creates problems, as Hegel does. As already mentioned, and described in detail in the chapter outline below, four themes are discussed in detail in their relation to the market: the relation between individual and community; questions of social justice, with a focus on the notions of desert and social inclusion; the relation between different dimensions of freedom in markets; and the historicity of markets. These are key categories for thinking about markets, but they are also topics of extensive debates in contemporary political theory. At many points lines will be drawn from Smith and Hegel to these discussions of the 20th and 21st centuries.

The study thus addresses two audiences: on the one hand, it offers an interpretation and discussion of Smith’s and Hegel’s accounts of the market and its place in society, in which the comparative approach brings to light new perspectives. This should be of interest to philosophers or historians of ideas working on Smith or Hegel, but also to economists interested in the thought of the founding father of their discipline and one of its early critics. On the other hand, the question of what it means to live in a market society, and what categories and concepts we can use to think about it, should be of interest to political philosophers who are involved in a number of contemporary debates, for example, the ‘liberal–communitarian’ debate or the discussion about the notion of desert. For these debates, it matters that, whether we like it or not, we live to a large degree ‘by exchanging’.

## 1.2 A POST-SKINNERIAN APPROACH

This study happily and consciously crosses the borderlines of several disciplines. Its subject matter, the market, is taken from economics. But, as has been argued, it approaches it in a philosophical manner, and thus has little in common with economic theory as it is practised today. It deals with historical thinkers, which is the traditional domain of intellectual history. Connecting their thought to themes like identity, desert, or autonomy, it locates itself within political philosophy. Such an approach can be extremely fruitful. It is not, however, without pitfalls, and demands a clear statement of the methodological assumptions on which it is based.

The dangers of reading historical authors with the aim of learning something for contemporary questions have been outlined most clearly in Quentin Skinner’s famous essay of 1969 on the methodology of the history of ideas. Skinner claims that if texts are pulled away from their context, we cannot understand the intention behind the words, and thus have no access to the meaning of what is being said.<sup>34</sup> Rather than drawing on historical authors when dealing with

<sup>34</sup> Quentin Skinner, ‘Meaning and Understanding in the History of Ideas’, *History and Theory* 8(1) (1969), 3–53. Skinner builds on a pragmatic theory of language, drawing on authors such as the late Wittgenstein, Grice, and Austin.

contemporary issues, Skinner states, 'we must learn to do our own thinking for ourselves'.<sup>35</sup> The 'Cambridge School' that has developed out of this approach has made invaluable contributions to our understanding of the contexts in which many 'classical' thinkers lived and wrote. But recognizing these achievements does not imply that one has to limit one's reading of historical authors to a contextualist approach.

It is helpful to think about the different ways in which one can read a historical text as aligned on a scale which reaches from purely 'historical' to purely 'systematic' readings. At one end one finds interpretations that approach a text exclusively in the context of its own time. They try to reconstruct the original voice of the author, in order to gain insights into what he or she 'really meant', but do not connect these insights to systematic questions. At the other end there are readings that take the historical context into no account at all, either in an unconscious, naïve way, or in a conscious decision to give up the search for 'original meaning' and to do whatever one likes with the texts.<sup>36</sup> These two extremes both have a monological structure: in one case, the ideal is to reconstruct the voice of the historical author; in the other case, the contemporary commentator does not make a serious attempt to understand the historical author and therefore cannot reject the charge that he or she merely projects his or her own ideas onto the text, using it as a 'sounding-board for current disciplinary preoccupations'.<sup>37</sup>

There is a middle ground, however, in which the ideal is not a monologue, but a 'dialogue across historical periods'.<sup>38</sup> This approach assumes that there are at least *some* concepts that we can understand, and *some* values that we can share, across the centuries. Here the main interest is in philosophical ideas, rather than in historical developments or contexts. This is how I approach Smith and Hegel in this study: I focus on understanding their claims about the role of the market in modern society and the arguments that they provide for these claims by drawing on a number of values and assumptions that we can understand today, even if we may not share all of them. This implies that I try to make as strong a case as possible for them, but also pay attention to tensions and weaknesses in their accounts, just as one does with contemporary fellow philosophers. This approach takes the historical authors seriously as thinkers who wrote in a wider intellectual context than just the immediate historical circumstances of their time, reacting to arguments made by Plato and Aristotle just as much as to those made by their contemporaries. Smith and Hegel, and many historical authors with them, wrote not only because they wanted to comment on current events, but also because they had something to say about fundamental problems of political theory. This is why they wrote long treatises rather than political pamphlets, and this is why they saw themselves as justified in engaging in a dialogue with those thinkers who, in the

<sup>35</sup> Skinner, 'Meaning and Understanding in the History of Ideas', 52.

<sup>36</sup> Cf. e.g. Richard Rorty, *Consequences of Pragmatism. Essays 1972–1980* (Minneapolis, MN: University of Minneapolis Press, 1982), 151.

<sup>37</sup> This phrase is from Keith Tribe, 'Review of Fricke/Schütt (eds.), Adam Smith als Moralphilosoph', *The Adam Smith Review* 4 (2008), 258–62, 259.

<sup>38</sup> Mark Philp, 'Political Theory and History', in Marc Stears and David Leopold (eds.), *Political Theory: Methods and Approaches* (Oxford: Oxford University Press, 2008), 128–49, 144f.

history of political thought, had done the same before. Reading them *only* in a contextualist manner would, ironically, disregard their own intentions.

This approach offers the possibility of learning something that is relevant for our own questions, while at the same time gaining truly new insights from hearing *somebody else's* voice, not just the echo of our own voice. Some awareness of the context is crucial, even if the main interest is in philosophical claims and arguments, for understanding the historical texts as thoroughly as possible. But much contextualist research on Smith and Hegel has already been undertaken; drawing on it reduces the risk of merely reading one's own concerns into their works.<sup>39</sup> In addition, the challenge of relating Smith's and Hegel's concepts to one another, and to our contemporary notions, is facilitated by the fact that certain key concepts, for example, the concept of 'the state',<sup>40</sup> had already developed a common usage in their time. The reception of Smith's thought by Hegel, as analysed by Waszek, shows that they are talking about the same phenomena. Bringing them into dialogue is thus, in a way, much less anachronistic than treating them as belonging to completely different intellectual universes. The greatest differences between their views, and between theirs and ours, do not lie in the different uses of certain concepts, but in the metaphysical background assumptions: Smith's deism and Hegel's metaphysics of *Geist*. In the course of the study, I will spend considerable time on drawing out the implications of these views for their conceptions of the market and of the nature of society more generally.

With regard to the questions and themes which I draw from Smith and Hegel, the process has in fact been a sort of dialogue: I came to their texts with a number of questions in mind, and while some of them proved fruitful, others turned out to be uninteresting. But in the course of studying their texts, new topics emerged and offered completely new perspectives on what I had taken to be uncontroversial aspects of their thought. Studying Smith's and Hegel's approach to the market has thus set me on an intellectual journey that took some rather surprising turns. It was a circular process between looking for answers to my own questions in their texts, trying to listen to the questions *they* were asking, and wondering why they differed on certain questions—a process very similar to contemporary philosophical discussions between people from different intellectual backgrounds, where the most interesting moments are often the points at which one understands *why* someone holds a position that seemed weird and illogical at first glance.

This kind of dialogue with historical authors possesses an emancipatory force: it can bring to light premises which one had taken over uncritically from the tradition and therefore offer one a conscious choice. Here we are back in line with Quentin Skinner, when he writes:

<sup>39</sup> For a short overview of the relevant scholarship on Smith and Hegel see the respective footnotes in chaps 2 and 3 and the Bibliography. It should be noted, however, that for the sake of conciseness I do not comment on the scholarly debates on Smith and Hegel unless they relate directly to the topics of this study.

<sup>40</sup> On the historical development of this concept see Quentin Skinner, 'From the State of Princes to the Person of the State', in *Visions of Politics*, vol. 2: *Renaissance Virtues* (Cambridge: Cambridge University Press, 2002), 308–413. Smith and Hegel share the notion of the state as a legal entity, *not* identical with the ruler or the ruling class, that stems from the natural jurisprudence tradition.



One of the contributions that historians can make is to offer us a kind of exorcism. . . . An understanding of the past can help us to appreciate how far the values embodied in our present way of life, and our present ways of thinking about those values, reflect a series of choices made at different times between different possible worlds. . . . Equipped with a broader sense of possibility, we can stand back from the intellectual commitments we have inherited and ask ourselves in a new spirit of enquiry what we should think of them.<sup>41</sup>

### 1.3 STRUCTURE OF THE STUDY

The study has two parts. The first part is mainly interpretive: it presents my reading of Smith's and Hegel's views of the market.

The second chapter, *Smith's Construction of the Market: Nature's Wise Con-  
trivances*, explores Smith's construction of the market, which is epitomized in the famous metaphor of the 'invisible hand', and argues that it needs to be read against the background of his deistic metaphysics. It discusses the way in which his moral philosophy and his economic theory hang together and analyses his complex notion of 'naturalness': although there are many 'good' natural processes, human design remains crucial for channelling and guiding these processes. This also applies to markets, which Smith sees as functioning only against an institutional framework of property rights and impartial laws. Under these conditions, markets can lead to 'opulence', a situation in which all members of society can flourish. Smith thus turns out to be not only an economist, but also a political thinker who reflects on the relation between market and society. This means that he is worth being taken seriously by political philosophers.

Chapter III, *Hegel's Construction of the Market: The 'Relics of the State of Nature'*,<sup>42</sup> discusses Hegel's view of the market. After clarifying my interpretative approach to Hegel—a pragmatic approach that starts from his political philosophy and remains agnostic with regard to his wider 'system'—I describe how Hegel took up the economic theories of his time and integrated them into his account of 'civil society', which includes the market and the institutions that stabilize it. The market is, for Hegel, both the sphere of 'subjective freedom' and at the same time a chaotic play of forces that threatens to undermine the cohesion and stability of society. Valuable and dangerous at the same time, the market therefore has to be embedded in the larger framework of *Sittlichkeit*, the most comprehensive institution of which is the state.

The second part of the study is systematic: it takes up a number of core issues in political philosophy and compares Smith's and Hegel's views of them. It addresses different concerns that have been raised with regard to the market even by those who otherwise endorse it: concerns about our social identities, about justice, about autonomy and political freedom, and about the applicability of ahistorical models to markets. Smith's and Hegel's views of the market are brought to bear on, and

<sup>41</sup> Quentin Skinner, *Visions of Politics*, vol. 1: *Regarding Method* (Cambridge: Cambridge University Press, 2002), 6.

<sup>42</sup> This formulation is from PR §200.

contrasted with, more recent discourses, showing the relevance of different constructions of the market for the questions they raise.

Chapter IV, *The Self in the Market: Identity and Community*, turns to the concern about the market creating unencumbered, 'atomistic' selves, which has been an important aspect of the so-called 'liberal-communitarian' debate that followed the publication of Rawls' *Theory of Justice*. After analysing the ways in which both Smith and Hegel see human beings as shaped in and through social contexts, the chapter addresses their different conceptualizations of how people relate to one another in the labour market. It shows that for Smith sovereign individuals sell their human capital in the market, while their identity is mainly formed in pre-market relationships. For Hegel, in contrast, the individuals' professional lives have a deep influence on their identity, which means that they see each other *as* butchers, brewers, or bakers and are recognized as such in society. This implies that there are not only different degrees, but also different kinds of social embeddedness; the contrast between the liberal and the communitarian approaches cannot capture all that is at stake in the conceptualization of the relations between individual and community. Taking into account the embeddedness—or lack thereof—that can take place in the labour market brings into view the sociological realities behind the abstract debate and thus leads it onto a more constructive path.

Chapter V, *Justice in the Market*, deals with questions of (in)equality and desert. It is a controversial question whether the notion of desert can be applied to markets; as I show, this makes sense for a 'Smithian' market, but not for a 'Hegelian' market. Even in a Smithian picture, however, a number of assumptions need to be fulfilled for making sense of the idea that market outcomes are deserved as rewards for certain laudable forms of behaviour. The second aspect of justice explored in this chapter concerns the question of poverty and social exclusion. I discuss the ways in which Smith's and Hegel's accounts are similar and dissimilar with regard to the market's impact on these problems: while both hold that markets can help to eliminate discrimination, Smith thinks that markets lead to more equality and mutual recognition in the long run, whereas for Hegel they do the opposite, so that the political sphere is needed as a space where individuals encounter each other not as 'bourgeois', but as 'citoyens'. In the conclusion of this chapter I discuss the relation between these two aspects of social justice, which has to do in particular with the non-material dimensions of poverty. I argue that rather than focussing only on surrounding institutions, markets *themselves* also need to be made an issue in discussions about social justice.

Chapter VI, *Freedom, Freedoms, and the Market*, deals with the market and its relation to freedom. Markets are often described as places of negative liberty, but, as this chapter shows, for Smith and Hegel markets are also related to other, more 'positive' aspects of freedom. Markets offer both opportunities and risks for freedom understood as personal autonomy. For Smith, markets also help to secure freedom in the republican sense of living under the rule of law as a free citizen. For Hegel, in contrast, the freedom of belonging to a just society the principles of which one can endorse is threatened by markets, and needs to be secured by the political state. The chapter concludes by arguing that these different notions of freedom should not be viewed as rivalling concepts, but that they represent a number of intrinsically related aspects or dimensions of freedom. *How* they are related crucially depends on the social contexts of freedom, one of which is the

market. If these contexts are taken into account, the debate about freedom can lead to an analysis of the relationships between different aspects of freedom and how today's culture and institutions realize them or fail to do so.

In the conclusion, *The Market in History*, I put the debate about different accounts of the market into a historical context. I do so in two ways: first, I describe how Smith and Hegel understand the historical development that leads to the modern market society, and what this implies for its future. I then address the question of whether economic phenomena can ever be understood in an ahistorical way, arguing that their dependence on social and cultural preconditions, and on the self-fulfilling nature of theoretical accounts of what markets are, makes this problematic. This means that in order to understand today's markets we need to understand the ideas from the past that brought them about—but also, that these ideas, and the thinkers who developed them, in turn need to be understood in the context of their time. Both philosophers and economists can benefit from a more historically situated approach to economic phenomena, which takes into account the many and variegated forms that markets can take on. This helps to understand pictures of the market *as* pictures, and thus opens up the possibility of alternative pictures and alternative realities.

## Smith's Construction of the Market: Nature's Wise Contrivances

### 2.1 INTRODUCTION: SMITH AGAINST THE CLICHÉS

Adam Smith's reputation has for a long time been disputed. He was mainly seen as the author of the *Wealth of Nations*, the birth certificate of economics as a separate science. Stigler's description of the *Wealth* as 'a stupendous palace erected upon the granite of self-interest'<sup>1</sup> captures this perception of Smith among economists and the general public, economists usually being fonder of these granite foundations than others. It is the line about the self-interest of 'the butcher, the brewer, or the baker' from whom we 'expect our dinner'<sup>2</sup> that has made its way into many economics textbooks, and to which Smith's vast and complex system is often reduced.

In the last decades, however, a more differentiated picture has emerged. A large, interdisciplinary community of Smith scholars has developed; the 'International Adam Smith Society' was founded in 1995 and the journal *The Adam Smith Review* has been published since 2004. This new wave of Smith scholarship has not only taken a fresh look at his unpublished works, and elaborated their relation to the *Theory* and the *Wealth*. It has also approached Smith from a vast variety of angles and disciplines, reaching from rhetoric to political theory and gender studies. The year 2009, which marked the 250th anniversary of the *Theory*, saw a number of international conferences on Smith. A steady flow of books and articles, as well as conference sessions and workshops, demonstrates the continuing interest in his thought. Scholarship on 'Smith the economist' equally continues to flourish, and draws a much more nuanced picture than the textbook cliché implies. The Smith who emerges from this research is not the narrow-minded apologist of self-interest, but a moral philosopher and social scientist with a rich and complex system of thought, an 18th-century scholar of impressive breadth of knowledge and deeply humanistic convictions. This is the Adam Smith we will meet in the following pages. While the focus is on his view of the market, what makes Smith interesting and relevant today is precisely the fact that this view is embedded in a wider system.

In this chapter I discuss Smith's view of the market, arguing that the famous metaphor of the 'invisible hand' can only be understood correctly if it is read in

<sup>1</sup> George Stigler, 'Smith's Travel on the Ship of the State', *History of Political Economy* 3 (1971), 265–77, 265.

<sup>2</sup> WN I.II.2.

the context of his whole system. I first give a short overview of Smith's historical and intellectual contexts. Then I address the systematic nature of his thought, drawing on his understanding of scientific inquiry and on his deistic background, both of which deliver strong arguments—in addition to the biographic evidence—against the existence of an 'Adam Smith Problem', that is, a gap between his moral and economic theory. Next, I address his conception of nature, arguing that it is complex and exhibits certain internal tensions, as Smith sometimes builds on nature, and sometimes wants to correct it. This prepares the ground for a discussion of his account of the market, which he sees as a wise contrivance of nature that can only function, however, within institutional structures that need to be provided and supervised by a wise legislator. Under these conditions free markets bring about a situation in which all members of society can lead a flourishing life. This state of 'opulence' is one of Smith's strongest arguments in favour of a market society.

## 2.2 SMITH'S CONTEXTS

Smith spent most of his life in his native Scotland, in Kirkcaldy, Glasgow, and Edinburgh. The Scotland of his day was a region in transition. United with England in 1707, its economy was still largely agrarian, dominated by family clans in the Highlands and by the landed gentry in the lowlands.<sup>3</sup> In the cities, however, colonial trade and proto-industrial forms of production brought new sources of income, as well as a change of mentality and social structures. These economic realities provided the writers of the Scottish Enlightenment with a panorama that reached from impoverished peasant societies to the 'commercial society' of Glasgow or Edinburgh. This influenced their theories of historical progress and the ways in which they weighed the pros and cons of commercial society. As we shall see, feudalism as a contrast to commercial society plays an important role in Smith's account.

This economic development was paralleled by the intellectual movement now referred to as the 'Scottish Enlightenment'. It comprised thinkers like Francis Hutcheson, David Hume, Adam Smith, Thomas Reid, Adam Ferguson, and Henry Home (Lord Kames), to name just the most prominent.<sup>4</sup> The distance between the political powerhouse in London and the relative weakness of the Presbyterian Kirk may have helped to develop a climate in which science and culture flourished.<sup>5</sup> A progressive spirit reigned among the educated classes; improvement was sought in all areas of life, in particular in agriculture and

<sup>3</sup> On the Scottish economy of Smith's day see e.g. T. C. Smout, 'Where Had the Scottish Economy Got to by the Third Quarter of the Eighteenth Century?' in Istvan Hont and Michael Ignatieff (eds.), *Wealth and Virtue. The Shaping of Political Economy in the Scottish Enlightenment* (Cambridge: Cambridge University Press, 1983), 45–72.

<sup>4</sup> For an overview of themes and figures see Alexander Broadie, 'Scottish Philosophy in the 18th Century', in Edward Zalta (ed.), *The Stanford Encyclopedia of Philosophy* Fall 2008 edition [online] <<http://plato.stanford.edu/archives/fall2009/entries/scottish-18th/>> (accessed 9 June 2012).

<sup>5</sup> Cf. e.g. Nicholas Phillipson, 'The Scottish Enlightenment', in Roy Porter and R. Teich (eds.), *The Enlightenment in National Context* (Cambridge: Cambridge University Press, 1981), 19–40, 28.

education. By the middle of the 18th century, Scotland had five universities. Its intellectuals, as well as many merchants and country gentlemen, were members of educated clubs and societies where they exchanged ideas and discussed the latest writings of their continental counterparts.<sup>6</sup> The connection to continental Europe was much stronger than in England: Scotland not only shared the Calvinist creed and parts of Roman law, it also quickly took up the tradition of natural jurisprudence, developed by Grotius and Pufendorf.<sup>7</sup> The Scottish literati were keenly interested in French literature and in the latest developments in philosophy and the arts in Europe. They saw themselves as part of the European 'republic of letters'.<sup>8</sup>

Adam Smith was deeply embedded in these circles. One of his most influential teachers was 'the never to be forgotten Dr Hutcheson'.<sup>9</sup> Francis Hutcheson introduced him to the moral theories of both the 'ancients' (thinkers like Aristotle, Cicero, and notably the Stoics<sup>10</sup>) and the 'moderns' (English sentimentalism and Hutcheson's own theory of an innate 'moral sense'). Smith was a close friend of David Hume, whom he met in Edinburgh in the 1750s and with whom he stayed in correspondence until the latter's death in 1776.<sup>11</sup> The influence of these and other contemporaries on his moral philosophy can be seen in book VII of the *Theory*, where Smith discusses a wide variety of positions in moral philosophy, in what almost amounts to an intellectual history of metaethics and normative ethics. Smith presents the strengths and weaknesses of different approaches, in an attempt to show the superiority of his own moral philosophy, which is based on the notions of 'sympathy' and the 'impartial spectator'.<sup>12</sup>

In his economic theory, Smith also drew widely on writers of his time.<sup>13</sup> He carefully studied James Steuart's *Inquiry into the Principles of Political Economy*,

<sup>6</sup> Cf. e.g. Nicholas Phillipson, 'Adam Smith as civic moralist', in Istvan Hont and Michael Ignatieff (eds.), *Wealth and Virtue. The Shaping of Political Economy in the Scottish Enlightenment* (Cambridge: Cambridge University Press, 1983), 179–202.

<sup>7</sup> Cf. James Moore and Michael Silverthorne, 'Gershom Carmichael and the Natural Jurisprudence Tradition in Eighteenth-Century Scotland', in Istvan Hont and Michael Ignatieff (eds.), *Wealth and Virtue. The Shaping of Political Economy in the Scottish Enlightenment* (Cambridge: Cambridge University Press, 1983), 73–87. Carmichael influenced Smith's teacher Hutcheson. On Smith and the natural jurisprudence tradition see in particular Istvan Hont and Michael Ignatieff, 'Needs and Justice in the Wealth of Nations: An Introductory Essay', in Istvan Hont and Michael Ignatieff (eds.), *Wealth and Virtue. The Shaping of Political Economy in the Scottish Enlightenment* (Cambridge: Cambridge University Press, 1983), 1–44; despite some criticisms of their account, the importance of this tradition for Smith has hardly been disputed.

<sup>8</sup> Cf. e.g. Roger Emerson, 'The Contexts of the Scottish Enlightenment', in Alexander Broadie (ed.), *The Cambridge Companion to the Scottish Enlightenment* (Cambridge: Cambridge University Press, 2003), 9–30, 17f.

<sup>9</sup> Corr. #274. On Hutcheson's influence on Smith see Ross, *The Life of Adam Smith*, 48ff.

<sup>10</sup> For a detailed discussion see Gloria Vivenza, *Adam Smith and the Classics. The Classical Heritage in Adam Smith's Thought* (Oxford: Oxford University Press, 2003).

<sup>11</sup> Ross, *The Life of Adam Smith*, 160ff., 289ff.; see also Andrew Skinner, *A System of Social Science. Papers Relating to Adam Smith* (Oxford: Clarendon Press, 1979), chap. X.

<sup>12</sup> Cf. TMS VII.1.1. On his moral philosophy see e.g. Charles L. Griswold, *Adam Smith and the Virtues of Enlightenment* (Cambridge: Cambridge University Press, 1999) and D. D. Raphael, *The Impartial Spectator* (Oxford: Oxford University Press, 2007).

<sup>13</sup> For an overview of economic theories in the Scottish Enlightenment see Andrew S. Skinner, 'Economic Theory', in Alexander Broadie (ed.), *The Cambridge Companion to the Scottish Enlightenment* (Cambridge: Cambridge University Press, 2003), 178–204.

published in 1767, promising in a letter that 'every false principle in it' would 'meet with a clear and distinct confutation' in the work he planned, the *Wealth*.<sup>14</sup> He may also have been influenced by Bernard de Mandeville, whose *Fable of the Bees* had caused a scandal in the 1720s by arguing that all human morality is based on self-interest and that commercial society flourishes *because of* human vice—points that Smith rejects in the *Theory*, but not without showing great respect for their author.<sup>15</sup> Another source were the 'physiocrats', a group of French economists under the lead of François Quesnay, whom Smith met during his stay in Paris in 1765. They presented him with a macroeconomic model—exemplified in the famous *Tableau Économique*—that went beyond his earlier reflections on economic phenomena.<sup>16</sup> Smith's account of physiocrat thought in book IV of the *Wealth* is, on the whole, positive,<sup>17</sup> and it is reported that had Quesnay lived, Smith would have dedicated his *magnum opus* to him.<sup>18</sup> Far less positive, in contrast, is his account of what he calls the 'mercantile system': a bundle of economic doctrines turning around the idea that a country's wealth consists in its supply of bullion, and that to augment it one should export as much, and import as little, as possible—assumptions which Smith takes to be intellectually flawed and politically harmful.<sup>19</sup> His criticism almost amounts to 'Ideologiekritik' *avant la lettre*, arguing that this 'system' serves as an ideological windscreen for 'merchants and manufacturers' who profit from it at the expense of other members of society.<sup>20</sup> As in the *Theory*, the discussion of other systems in the *Wealth* is an attempt to show the superiority of Smith's own account, as not only more intellectually sound, but also less ideologically biased.

These contexts—sketched here only in broad outline—provide the intellectual background against which Smith's theories have to be understood. They help to put into perspective what he attempted to do in the *Theory* and the *Wealth*. Importantly, however, these two books should not be understood as separate works, but as integral parts of what was supposed to be a unified system.

### 2.3 SMITH'S SYSTEM

The nature and coherence of Smith's thought have given rise to much controversy. In the late 19th century, German commentators, who did not have any information about Smith's biographical context and his unpublished works, coined the term 'Das Adam Smith Problem'. It concerns the relation between Smith's moral philosophy and his economics: is the focus on sympathy in the *Theory* compatible

<sup>14</sup> Corr. #132. See also Skinner, *A System of Social Science*, chap. XI.

<sup>15</sup> TMS VII.II.4. On the compatibility of virtue and commerce in Smith see chaps 5.2 and 6.2 of this volume.

<sup>16</sup> Ross, *The Life of Adam Smith*, 216f., Skinner, *A System of Social Science*, chap. VI.

<sup>17</sup> Cf. in particular WN IV.IX.38, where he calls it 'the nearest approximation to the truth that has yet been published upon the subject of political economy'.

<sup>18</sup> Dugald Stewart, 'Account of the Life and Writings of Adam Smith, LL.D', in Ian Simpson Ross (ed.), *Essays on Philosophical Subjects by Adam Smith* (Oxford: Clarendon Press, 1980), 264–353, III.12.

<sup>19</sup> WN IV.I–VIII.

<sup>20</sup> Cf. e.g. WN IV.I.6ff.

with the emphasis on self-interest in the *Wealth*? Or had Smith changed his mind over the course of his life?<sup>21</sup>

There are indeed questions about the internal consistency of Smith's system. But these are endemic to his theory, and have nothing to do with a change of position between his two published works. As is known today, Smith kept revising the *Theory* until the end of his life, before and after the *Wealth* was published; this is evidence against a 'shift' in his views.<sup>22</sup> The appearance of manuscripts from his time in Glasgow has made clear that he was interested in economic questions long before he met the physiocrats in France in the 1760s. Both his *Lectures on Jurisprudence*—of which two sets of notes by students have been found—and the manuscript known as 'Early Draft' contain substantial reflections on the division of labour, the price mechanism, and other economic issues. Smith's own intention to produce a system is clearly stated in the advertisement to the sixth edition of the *Theory*:

In the last paragraph of the first Edition of the present work, I said, that I should in another discourse endeavour to give an account of the general principles of law and government, and of the different revolutions which they had undergone in the different ages and periods of society; not only in what concerns justice, but in what concerns police, revenue, and arms, and whatever else is the object of law. In the Enquiry concerning the Nature and Causes of the Wealth of Nations, I have partly executed this promise; at least so far as concerns police, revenue, and arms.

The *Lectures on Jurisprudence* provide valuable insights into what Smith's account of the 'general principles of law and government' might have looked like, and it is for this reason that they are fully taken into account in this study. Thematically, they form a 'bridge'<sup>23</sup> between the *Theory* and the *Wealth*: they connect to Smith's

<sup>21</sup> On the historical 'Adam Smith Problem' see e.g. Keith Tribe, "Das Adam Smith Problem" and the Origins of Modern Smith Scholarship', *History of European Ideas* 24 (2008), 514–25. On the more recent debates see e.g. Leonidas Montes, *Adam Smith in Context. A Critical Reassessment of Some Central Components in His Thought* (Basingstoke: Palgrave Macmillan, 2004), chap. II.

<sup>22</sup> The first edition of TMS appeared in 1759; Smith made only small changes in the following editions. More substantial changes can be found in the sixth edition that appeared shortly before Smith's death: a new book (VI) on the character of virtue and a section on the 'corruption of our sentiments' (I.III.3) were added (cf. 'Advertisement of the sixth edition', for a discussion see e.g. D. D. Raphael and A. L. Macfie, 'Introduction', in Adam Smith, *The Theory of Moral Sentiments* (Oxford: Clarendon Press, 1976), 1–52, 15ff.). In this study I use the sixth edition, as is standard practice today, drawing attention to differences between the editions only where this plays a role for the interpretation.

<sup>23</sup> This term has first been used by Donald Winch, *Adam Smith's Politics. An Essay in Historiographic Revision* (Cambridge: Cambridge University Press, 1978), 10. Charles Griswold and Samuel Fleischacker have recently argued that LJ cannot fulfil this role as a bridge, and that there are philosophical reasons why Smith never finished his jurisprudence. Griswold (*Adam Smith and the Virtues of Enlightenment*, 256ff.) sees a tension between Smith's start from the standpoint of ordinary life, which is historically situated, and the claim to discover eternal natural laws. This tension is dissolved, however, if one reads Smith as a deist, for which I argue below, or if one simply assumes that Smith sees a common core of human nature that is constant through different times and that provides an anchor for a theory of natural law (cf. e.g. Jeffrey T. Young, *Economics as a Moral Science: The Political Economy of Adam Smith* (Cheltenham: Elgar, 1977), 42ff.). Samuel Fleischacker (*On Adam Smith's Wealth of Nations: A Philosophical Companion* (Princeton, NJ: Princeton University Press, 2004), chap. VIII) challenges the idea that the rules of justice can be laid out with the precision that Smith assumes, a question that he relates to the problematic distinction between acting and omitting (153ff.). While this may be a legitimate philosophical worry, it seems that Smith himself was



intention to write a treatise on jurisprudence at the end of the *Theory*,<sup>24</sup> and lead, via reflections on legal history and various political themes, to his first sketches of economic theory. Had the *Lectures* been available to the German 19th-century Smith scholars, the 'Adam Smith Problem' would probably never have been born.<sup>25</sup>

These facts all point to Smith's plan to construct a unified system, an 'inquiry into jurisprudence and forms of government, with the whole edifice being underpinned by treatments of morals, metaphysics, or psychology', which was, as Donald Winch points out, a 'general eighteenth-century practice'.<sup>26</sup> This view also receives support from Smith's conception of philosophy and from his theological background assumptions.

Smith laid down his conception of philosophy or science<sup>27</sup> in an essay called 'The Principles Which Lead and Direct Philosophical Enquiries; Illustrated by the History of Astronomy'. Written in 1758, Smith asked Hume to publish it in 1773, which indicates that he held these views also later in life.<sup>28</sup> Smith describes how human beings perceive the world, and how things that are 'new and singular', 'unexpected', or 'great and beautiful' produce the feelings of 'wonder', 'surprise', and 'admiration' in them.<sup>29</sup> The human mind always looks for familiar patterns in what it experiences. New or unexpected experiences are like gaps in these patterns, and raise a spontaneous urge to fill them. The root cause of all scientific endeavours is not any practical need, but rather this feeling of wonder. Scientists have acquired a 'nicer ear' than normal people for such gaps, and 'look for a chain of invisible objects to join together two events that occur in an order familiar to all the world'.<sup>30</sup> Smith speaks of 'that science which pretends to lay open the concealed connections that unite the various appearances of nature'.<sup>31</sup> These connections are like bridges on which ideas can 'as it were . . . float through the mind of their own accord'.<sup>32</sup> This is how science achieves its aim of giving tranquillity to the mind, of 'introduc[ing] order into this chaos of jarring and discordant appearances . . . and restor[ing] [the imagination] . . . to [a] tone of tranquillity and composure'.<sup>33</sup> Where several bridges, or chains, come together, a

rather optimistic about it, holding that the rules of justice are like rules of grammar that can be stated with sufficient clearness to discern violations (cf. TMS III.IV.11, VII.IV.1).

<sup>24</sup> TMS VII.IV.37.

<sup>25</sup> Nevertheless, some contemporary scholars still hold that there is an 'Adam Smith Problem', e.g. Vivienne Brown (see *Adam Smith's Discourse: Canonicity, Commerce and Conscience* (London: Routledge, 1994)). In Brown's case this has to do with her post-modern approach that uses Mikhail Bakhtin's distinction between dialogism and monologism (cf. chaps I and II). Pia Maria Paganelli ('The Adam Smith Problem in Reverse: Self-Interest in The Wealth of Nations and The Theory of Moral Sentiments', *History of Political Economy* 40(2) (2008), 365–82) argues that self-interest is presented in a more positive fashion in TMS than in WN, but overlooks the different aspects and functions of self-interest in the relevant passages—a child's 'self-interest' in wanting to gain the favour of other children cannot be put on a level with a rich and powerful merchant's self-interest in conspiring against the public.

<sup>26</sup> Donald Winch, *Riches and Poverty. An Intellectual History of Political Economy in Britain, 1750–1834* (Cambridge: Cambridge University Press, 1996), 22.

<sup>27</sup> The two terms are used almost synonymously, see e.g. HA II.12.

<sup>28</sup> Corr. #37. Hume did not do this; the text was published by Joseph Black and James Hutton after Smith's death in 1790 (cf. W. P. D. Wightman, 'Introduction', in Adam Smith, *Essays on Philosophical Subjects* (Oxford: Clarendon Press, 1980), 5–28, 5).

<sup>29</sup> HA I.1.

<sup>30</sup> HA II.11.

<sup>31</sup> HA III.3, cf. similarly II.12.

<sup>32</sup> HA II.7.

<sup>33</sup> HA II.12.

scientific system is formed, which Smith defines as an 'imaginary machine invented to connect together in the fancy those different movements and effects which are already in reality effected'.<sup>34</sup> His description of the historical progress in astronomy culminates in an account of Newton's system, which Smith praises for being so plausible that although it is, like all philosophical systems, a 'mere invention of the imagination', one is led to think that it describes the 'real chains' of Nature.<sup>35</sup>

Given this emphasis on systematicity it is likely that Smith's own ambition was systematic as well: to achieve for social science what Isaac Newton had achieved for astronomy.<sup>36</sup> This is also the most plausible conclusion that can be drawn from his metaphysical assumptions. Against the current mainstream of Smith scholarship I hold that a purely secular interpretation does not do justice to the deeply metaphysical dimensions of his system. We should be aware of this background precisely because we may not share it.

Smith's view of religion and the role it plays for his system are deeply contested.<sup>37</sup> He harshly criticizes aspects of existing religion, particularly the Roman Catholic Church,<sup>38</sup> which led some commentators to assume that he was an atheist or agnostic like his friend Hume. There are, however, no signs of atheism or deep scepticism in our evidence about his private life. But the more substantial argument comes from his texts. The *Theory* contains numerous allusions to 'the Deity', 'the Creator', or the 'Author of Nature'<sup>39</sup> and unless one shrugs them off as rhetorical flourishes—for which they are rather too frequent—they speak against seeing Smith as an atheist or a sceptic. Given his interest in Stoicism, and given the fusion of Stoic and Christian thought accomplished by many Scottish literati, it is likely that he shared the views of many 18th-century deists who believed in the ability of human reason to discover central tenets of a natural religion.<sup>40</sup> In one passage of the *Wealth* Smith speaks of 'that pure and rational religion, free from every mixture of absurdity, imposture, or fanaticism, such as wise men have in all

<sup>34</sup> HA IV.19.

<sup>35</sup> HA IV.76. On Smith's 'Newtonian' method see e.g. Eric Schliesser, 'Some Principles of Adam Smith's Newtonian Methods in the Wealth of Nations', *Research in the History of Economic Thought and Methodology* 23 (2005), 35–77.

<sup>36</sup> Smith has indeed been called a 'Newton' of the 'History of Civil Society' by his student John Millar (quoted in Ross, *The Life of Adam Smith*, 120).

<sup>37</sup> For a recent overview of the debate see Brendan Long, 'Adam Smith's Theism', in Jeffrey T. Young (ed.), *Elgar Companion to Adam Smith* (Cheltenham/Northampton, MA: Edward Elgar, 2009), 73–99.

<sup>38</sup> Cf. in particular WN V.I.III.III.2ff.

<sup>39</sup> E.g. II.II.3.5, II.III.3.1ff., III.V, VII.III.3.20. Montes (*Adam Smith in Context*, 37, n. 43) provides numbers: 'nature with capital 'N' appears 53 times, God with capital 'G' 25, Deity with capital 'D' 20, Divine Being 8, Providence 5, along with others: All-powerful Being, Supreme Being, Infinite Wisdom, Infinite Power, Creator, Great Superior, the Lord our God'. Cf. also TMS VI.II.3.2, where Smith famously speaks about 'the very suspicion of a fatherless world' being 'the most melancholy of all reflections'.

<sup>40</sup> Cf. e.g. P. H. Clarke, 'Adam Smith, Stoicism and Religion in the 18th Century', *History of the Human Sciences* 13(4) (2000), 49–72. On deism in 18th-century Scotland see also M. A. Stewart, 'Religion and Rational Theology', in Alexander Broadie (ed.), *The Cambridge Companion to the Scottish Enlightenment* (Cambridge: Cambridge University Press, 2003), 31–59. Long (e.g. in 'Adam Smith's Theism') reads Smith as a theist rather than a deist, the difference being the denial of revelation of the latter. For Smith, revelation does not seem to be *necessary* as an access to God (cf. e.g. WN V.III.III.8), but there is no explicit denial of the truth of the Bible. For my purposes, this question is of minor importance.

ages of the world wished to see established'.<sup>41</sup> He holds that the 'happiness of mankind . . . seems to have been the original purpose intended by the Author of nature'<sup>42</sup> and that in 'every part of the universe' one finds means that are 'adjusted with the nicest artifice to the ends which they are intended to produce'.<sup>43</sup> As Smith's discussion of Stoicism makes clear, the aim of his moral philosophy is to discover and understand the 'plan and system which Nature has sketched out for our conduct'.<sup>44</sup> This concurs with his account of science as finding the 'hidden chains' of Nature, as described above. For the 'scientific' exploration of the causal laws that govern the world, the hypothesis of God's existence plays no direct role—once God has put the system in place, it works on its own principles.<sup>45</sup>

Where the deistic framework plays a role, however, is in the normative dimensions of Smith's system. The assumption that the world—including human nature—has been created by a benevolent deity forms the bridge from Smith's 'empirical' description of human nature and society to his normative moral theory that distils 'oughts' from the natural 'is': if there are *natural* moral sentiments, and nature has a normative status as created by God, then men *should* indeed follow these sentiments.<sup>46</sup> As we shall see, the same holds for the natural social order that Smith uncovers in the *Wealth*, the 'system of natural liberty': it is good not only because it results in good consequences for human beings, but also because it has been created by benevolent nature. There is, however, an additional level of complexity in Smith's account of nature.

## 2.4 SMITH'S NOTION OF NATURE

Starting from Smith's assumption that a benevolent deity has created the cosmos to further human happiness, it is tempting to think that in his system everything that is natural is therefore, by definition, good. But Smith's views are more

<sup>41</sup> WN V.III.III.8, cf. also TMS III.V.4, where Smith speaks about the right form of religion being 'confirmed by reason and philosophy'.

<sup>42</sup> TMS III.V.7.

<sup>43</sup> TMS II.II.3.5.

<sup>44</sup> TMS VII.II.1.43. Some commentators have taken this passage to imply that Smith does not see such a plan *at all*, but this is clearly not implied in this remark. As Lisa Hill rightly argues, Smith wanted to 'modernize' rather than abandon the idea of a providential plan of Nature ('The Hidden Theology of Adam Smith', *European Journal of the History of Economic Thought* 8(1) (2001), 1–29, 11).

<sup>45</sup> As Hill remarks, there is *general*, but never *special*, providence in Smith ('The Hidden Theology of Adam Smith', 15). Teleology in Smith is thus a way of looking at things from a different perspective, which is compatible with a purely scientific discourse in which nothing 'hinges on teleological explanations' (Knud Haakonssen, *The Science of the Legislator. The Natural Jurisprudence of David Hume and Adam Smith* (Cambridge: Cambridge University Press, 1981), 77).

<sup>46</sup> Cf. e.g. TMS III.II.31, where Smith says that the 'all-wise Author of Nature' has appointed man as 'his vicegerent upon earth, to superintend the behaviour of his brethren', which implies that the moral judgments of others are more than just conventions. I thus disagree with Griswold's reading of Smith as a 'post-Enlightenment' thinker (*Adam Smith and the Virtues of Enlightenment*, 24; 330ff.). Griswold emphasizes Smith's starting point in ordinary life; in my reading Smith chooses this starting point precisely because Nature has given human beings moral sentiments that enable them to live their ordinary lives in ways that can be normatively endorsed.

complex, and a number of apparent tensions in his system—and between competing interpretations—can be dissolved if one takes into account a basic ambiguity in his conception of nature: some natural tendencies should be reinforced, while others should be curbed or channelled in certain ways.<sup>47</sup>

To address this issue we need to understand, first, how Smith analyses nature's benevolent work. It has often been described as one of the seminal discoveries of the Scottish Enlightenment that good purposes can be attained without good intentions.<sup>48</sup> This is the famous doctrine of unintended consequences: social order can, in Ferguson's words, be 'the result of human action, but not the execution of any human design'.<sup>49</sup> This idea has often been linked to Smith's metaphor of the 'invisible hand'. In Smith, however, unintended good consequences can be found not only in the market, but also in a broad range of psychological and social mechanisms described in the *Theory*. The 'cunning of nature'<sup>50</sup> is for Smith a widespread phenomenon which he discovers in numerous places.

For example, men naturally care most for those around them: their family, friends, and neighbours.<sup>51</sup> This means that people devote most energy to 'that little department in which [they] have some little management and direction'<sup>52</sup> rather than to those 'whom [they] can neither serve nor hurt'.<sup>53</sup> The 'very limited' 'powers of beneficence'<sup>54</sup> are thus optimally allocated, without anyone consciously intending it: individuals simply follow their natural tendencies. The 'circles of sympathy'<sup>55</sup> create a strong web of sympathy and support in which, ideally, every member of the society is embedded.<sup>56</sup>

A second example of the 'cunning of nature' can be found in Smith's theory of justice, although here the natural sentiments need to be channelled and guided by the impartial spectator—the key element of his moral philosophy—in order to arrive at normatively endorsable judgments. Justice, which Smith calls 'the main pillar' of society,<sup>57</sup> is based on natural 'resentment' against offenders;<sup>58</sup> resentment

<sup>47</sup> On his complex notion of nature cf. also T. D. Campbell, *Adam Smith's Science of Morals* (Glasgow: Glasgow University Press, 1971), chap. II and Laurence Dickey, 'Historicizing the "Adam Smith Problem": Conceptual, Historiographical, and Textual Issues', *The Journal of Modern History* LVIII (1986), 579–609, 603ff., who also discusses the development of Smith's notion of nature in the different editions of TMS.

<sup>48</sup> Cf. in particular Ronald Hamowy, *The Scottish Enlightenment and the Theory of Spontaneous Order* (Carbondale: Southern Illinois University Press, 1987). As he shows, this doctrine was directed against the idea of a mythical legislator as the source of social order.

<sup>49</sup> Adam Ferguson, *An Essay on the History of Civil Society, 1767*, edited by Duncan Forbes (Edinburgh: Edinburgh University Press, 1966), 122.

<sup>50</sup> This term is also used by Michael Ignatieff, 'Smith, Rousseau and the Republic of Needs', in T. C. Smout (ed.), *Scotland and Europa 1200–1850* (Edinburgh: John Donald Publishers, 1986), 187–206, 191.

<sup>51</sup> TMS VI.II.1.

<sup>52</sup> TMS VII.II.1.44.

<sup>53</sup> TMS III.III.9, cf. VI.II.2.2.

<sup>54</sup> TMS VI.II.Intr.2.

<sup>55</sup> Cf. the title of Fonna Forman-Barzilai's *Adam Smith and the Circles of Sympathy: Cosmopolitanism and Moral Theory* (Cambridge: Cambridge University Press, 2010). See also R. Nieli, 'Spheres of Intimacy and the Adam Smith Problem', *Journal of the History of Ideas* 47 (1986), 611–24, and James R. Otteson, *Adam Smith and the Marketplace of Life* (Cambridge: Cambridge University Press, 2002), 183ff.

<sup>56</sup> Cf. also chap. 5.2 of this volume.

<sup>57</sup> TMS II.II.3.4.

<sup>58</sup> TMS II.II.1.4.

is the 'safeguard of justice and the security of innocence'.<sup>59</sup> As justice is crucial for social order, Smith holds that nature has not trusted the weak power of human reason alone, but has given men 'an immediate and instinctive approbation' of the punishment of injustice.<sup>60</sup> People have a natural sense of justice, a 'sense of ill-desert',<sup>61</sup> which, together with the habitual reverence for just laws,<sup>62</sup> can stabilize society.<sup>63</sup> Although human action is needed for the enforcement of law, nature has provided additional resources—the natural sentiments—in order to facilitate the realization of justice.

Such 'cunning of nature' is necessary because the powers of intentional human planning are far too limited for the tasks at hand. Smith explicitly claims that 'the care of the universal happiness of all rational and sensible beings, is the business of God', whereas to man is 'allotted a much humbler department, but one much more suitable to the weakness of his powers, and to the narrowness of his comprehension', namely to look after his own interest and the well-being of his family and country.<sup>64</sup> This fact—and *not* an understanding of human nature as inherently selfish—is also why '[e]very man is, no doubt, by nature, first and principally recommended to his own care . . . as he is fitter to take care of himself than of any other person'.<sup>65</sup> The 'providential care' of the Author of Nature can be seen even in the 'weakness and folly of man', Smith holds.<sup>66</sup> His system never idealizes human nature, but wants to take man 'as he really is'.<sup>67</sup> While he does not think that the 'bulk of mankind'<sup>68</sup> are Hobbesian egoists, he assumes that only a small minority are truly wise and virtuous.<sup>69</sup> When Smith reflects on the social world, he looks for those mechanisms that bring about social order *without* presupposing too much wisdom or virtue, working behind the agents' backs, through indirection.

But this does not mean that *all* natural tendencies have good consequences and should therefore be followed. Sometimes such tendencies need to be curbed, or at least channelled. In the *Theory* Smith distinguishes between nature 'as such' and cultivated nature; for example, the 'natural' moral sentiments need to be developed and refined through the equally 'natural' faculty of reason and the impartial spectator.<sup>70</sup> Smith thus does not oppose 'nature' and 'artifice'; as Haakonssen puts

<sup>59</sup> TMS II.II.1.4.

<sup>60</sup> TMS II.I.1.5.10.

<sup>61</sup> TMS II.I.V.7, cf. also II.II.2.

<sup>62</sup> Cf. TMS VII.IV.36f.

<sup>63</sup> Cf. also Griswold, *Adam Smith and the Virtues of Enlightenment*, 237. On Smith's theory of justice see also Spencer J. Pack and Eric Schliesser, 'Smith's Humean Criticism of Hume's Account of the Origin of Justice', *Journal of the History of Philosophy* 44(1) (2006), 47–63.

<sup>64</sup> TMS VI.II.3.6.

<sup>65</sup> TMS II.II.2.1, italics added.

<sup>66</sup> TMS II.III.3.2.

<sup>67</sup> With this approach Smith stands in the tradition of a number of thinkers, such as Machiavelli, Hobbes, and Spinoza, who argued for the use of a 'realistic' picture of human nature, emphasizing its darker sides; cf. e.g. Albert O. Hirschman, *The Passions and the Interests. Political Arguments for Capitalism Before Its Triumph* (Princeton: Princeton University Press, 1977), 12ff. Smith's picture of human nature, however, is less negative than that of these thinkers; for him, men have an irreducible interest in society and the well-being of others (cf. chap. 4.2 of this volume).

<sup>68</sup> TMS III.V.1.

<sup>69</sup> Cf. e.g. TMS I.I.2.4, II.I.5.9, III.IV.4, VI.III.25.

<sup>70</sup> E.g. TMS I.II.3.1, where he speaks of passions that must be 'brought down to a pitch much lower than that to which *undisciplined nature* would raise them' (italics added). Cf. also Maria Alejandra

it, for Smith artifice is 'natural' to humankind, as human beings always 'generate moral, aesthetic, and other conventions'.<sup>71</sup> What is 'natural' is not automatically better; there can be cases in which 'the wisdom of Nature needs help'<sup>72</sup> by conscious human action. In one place, Smith explicitly says that man 'is by Nature directed to correct, in some measure, that distribution of things which she herself would otherwise have made'.<sup>73</sup> Smith's strong focus on the naturalness of certain sentiments thus does not imply that they should always be passively accepted—sometimes nature needs not to be imitated, but rather 'amended'.<sup>74</sup>

This complex notion of nature also needs to be taken into account when one considers institutions. The fact that an institution has existed for a long time, maybe as a result of unintended consequences, does not *by itself* imply that it should be normatively endorsed. Just as there are natural tendencies in individuals that should be amended rather than imitated, there are also historical developments in the institutional structure of societies for which this is true.<sup>75</sup>

The emphasis on Smith-the-advocate-of-laissez-faire may have obscured the fact that he does not naïvely endorse all historical developments that look 'natural'. The clearest counter-example is slavery,<sup>76</sup> which he describes as flowing from the 'natural' (!) 'love of domination and authority', but clearly sees as unjust.<sup>77</sup> Thus, the challenge is to distinguish the cases in which Smith endorses natural tendencies from those in which he rejects them.<sup>78</sup> It seems that Smith here relies on his notion of the impartial spectator. An impartial spectator can endorse an institution if it leads to good consequences for *everyone* concerned, without

Carrasco, 'Adam Smith's Reconstruction of Practical Reason', *The Review of Metaphysics* 58(1) (2004), 82–116, for a reading of Smith's moral philosophy as a theory of practical reason that arises from the refinement of natural tendencies.

<sup>71</sup> Knud Haakonssen, 'Introduction. The Coherence of Smith's Thought', in Knud Haakonssen (ed.), *The Cambridge Companion to Adam Smith* (Cambridge: Cambridge University Press, 2006), 1–21, 9.

<sup>72</sup> Cf. Laurence Brubaker's title 'Does the "Wisdom of Nature" Need Help?' in Leonidas Montes and Eric Schliesser (eds.), *New Voices on Adam Smith* (London: Routledge, 2006), 168–93.

<sup>73</sup> TMS III.V.9. It should be noted, however, that Smith—in contrast to Mandeville, cf. TMS VII. II.4—does not think that morality demands a complete *eradication* of natural tendencies; it is rather a question of restraining and channelling certain sentiments while nurturing others (cf. e.g. TMS I.I.5.5). This saves him from the Mandevillian pessimism that holds that virtue and natural tendencies—in particular self-love and the economic structures that build on it—are irreconcilable. Cf. chaps 5.2 and 6.2 of this volume.

<sup>74</sup> Griswold, *Adam Smith and the Virtues of Enlightenment*, 328.

<sup>75</sup> Otteson argues that because the 'market principle' works in different social spheres, long-standing rules that embody the experience of many generations are, for Smith, superior to new legislation; he even sees an element of 'Burkean conservatism' in Smith (*Adam Smith and the Marketplace of Life*, 322). There are some passages in Smith that support such a reading (e.g. WN V.I.II.21; V.I. III.I.9, LJ(B) 426), but he is aware that institutions can also decline over time (cf. e.g. WN V.II.IV.62, III.II.4)—the age of an institution does not automatically decide about its quality. For discussions of Otteson's reading see also Fonna Forman-Barzilai (ed.), 'Is Life a Marketplace? A Symposium on James R. Otteson's *Adam Smith's Marketplace of Life*', *The Adam Smith Review* 2 (2006), 195–222.

<sup>76</sup> His strongest statements about the injustice of slavery are in LJ(A) 181ff., cf. also LJ(B) 452f.

<sup>77</sup> LJ(A) 186, cf. LJ(B) 451f. Other examples include the apprenticeship regulations and the poor laws, but also primogeniture and entail (WN III.II.6, LJ(A) 69, LJ(B) 468).

<sup>78</sup> On this question with regard to the Smithian state see also Jeffrey T. Young's interesting paper on different policy norms in Smith: 'Unintended Order and Intervention: Adam Smith's Theory of the Role of the State', *History of Political Economy* 37(1) (2006), 91–119.

sacrificing the interests of some to the interests of others.<sup>79</sup> The 'man within the breast'<sup>80</sup> is the internalized authority that takes into account the positions of *all* parties, without privileging any one of them.<sup>81</sup> This notion provides the criterion for deciding which natural tendencies should be followed and which should be curbed, and also which *institutions* are endorsable and which are unjust. God has, as it were, left some tasks to human beings, but has given them the guidance of the 'impartial spectator', which takes into account the equal rights of all human beings.<sup>82</sup> For example, many remnants from feudalism—which Smith calls an 'unnatural and retrograde order'<sup>83</sup>—clearly privilege some groups at the expense of others, and should therefore be abolished.

Smith does not oppose change as a matter of principle and is not in favour of letting things stay as they are. When existing institutions one-sidedly favour certain groups and suppress the rights of others, he argues for abolishing these 'evident violation[s] of natural justice and liberty'.<sup>84</sup> This approach of seeing institutions from the perspective of the impartial spectator coheres with Smith's egalitarianism, which has been much noticed in recent commentaries.<sup>85</sup> As Stephen Darwall argues, equality is inscribed in the very method by which Smith reconstructs moral judgment, that is, sympathy and the impartial spectator, because sympathy 'implicitly recognizes the other as having an independent [and as such an equal] perspective'.<sup>86</sup> Smith's argument for the free market also relies on the fact that in his view markets can be endorsed by an impartial spectator, because they do not violate anyone's rights and bring opulence to *all* members of society.

## 2.5 SMITH'S ACCOUNT OF THE MARKET SOCIETY

Thus, for Smith, the task of science is to uncover the 'hidden chains' behind phenomena and to unite them into a coherent system; the cosmos in which

<sup>79</sup> There is some disagreement, however, whether the emphasis on justice in WN is really based on the impartial spectator. Some commentators argue that Smith's criterion in WN is usefulness rather than the justice of the impartial spectator (e.g. T. D. Campbell and Ian Simpson Ross, 'The Utilitarianism of Adam Smith's Policy Advice', *Journal of the History of Ideas* 42 (1981), 73–92). It is possible, however, to mediate between utilitarianism and spectator theory. An impartial spectator looks not only at an individual and what he or she has done, but also at the 'general interest of society' (TMS II.II.III.7) and the 'interest of the many' (TMS II.II.III.11); consequentialist considerations can thus be integrated into a spectator theory.

<sup>80</sup> TMS VI.Concl.1.

<sup>81</sup> It teaches us that we are 'but one of the multitude, in no respect better than any other in it' (TMS III.III.4, cf. similarly I.I.1.5 and II.III.1.5). The idea of the 'impartial spectator' is based on the human ability of sympathy, of 'changing places in fancy' (TMS I.I.1.3) with others. On sympathy see also chap. 4.2 of this volume.

<sup>82</sup> Smith's notion of rights has its roots both in the natural jurisprudence tradition and in his moral theory of the impartial spectator. For a helpful discussion see David Lieberman, 'Adam Smith on Justice, Rights, and Law', in Knud Haakonssen (ed.), *The Cambridge Companion to Adam Smith* (Cambridge: Cambridge University Press, 2006), 214–45.

<sup>83</sup> WN III.I.9.

<sup>84</sup> WN I.X.II.59, referring to the poor laws that restricted the freedom of movement.

<sup>85</sup> E.g. Fleischacker, *On Adam Smith's Wealth of Nations*, 73.

<sup>86</sup> Stephen Darwall, 'Equal Dignity in Adam Smith', *The Adam Smith Review* 1 (2004), 129–34, 131.

these 'hidden chains' are to be found has been created by a benevolent deity. His account of 'nature' is complex and does not imply that everything that comes about through 'natural' tendencies is thereby justified. These dimensions of his thought are easily overlooked in ahistorical readings that focus exclusively on the *Wealth* and approach Smith with the models of contemporary economics in mind. They are central, however, for understanding the meaning and place of the market in Smith's theory. In one passage of the *Theory* Smith speaks of moral behaviour as 'co-operat[ing] with the Deity'.<sup>87</sup> The 'system of natural liberty', the politico-economic order Smith describes in the *Wealth*, builds on a similar cooperation between natural tendencies (created by the Deity) and human voluntary actions—in particular, as we shall see, actions by virtuous politicians.

The 'division of labour' between nature and institutions in Smith's model of commercial society can be described in three steps. The first dimension is an institutional framework that provides external defence and secures property rights. Smith describes these as two of the tasks of government:

According to the system of natural liberty, the sovereign has only three duties to attend to . . . first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice.<sup>88</sup>

Governments develop 'naturally' in the course of human history when people settle down and acquire property that is beyond the 'value of two or three days' labour<sup>89</sup> and therefore requires protection.<sup>90</sup> It is much less natural that governments should protect everyone, especially the poor, *equally*, by taking up the position of an impartial spectator and realizing 'natural justice', including fair legal procedures.<sup>91</sup> As Smith describes in the *Lectures on Jurisprudence*, it had been a slow and tedious process until Great Britain arrived at the degree of justice and security of property it had in his day.<sup>92</sup> Many other countries are still stuck in feudal structures, with the rich and powerful, rather than independent judges, having judicial power over the poor.<sup>93</sup> But even in 18th-century Great Britain, there are institutions, often stemming from feudal times, which unfairly

<sup>87</sup> TMS III.V.7.      <sup>88</sup> WN IV.IX.51.

<sup>89</sup> Cf. WN V.II.I.2, where Smith holds that the existence of such property creates incentives for crimes that need to be counterbalanced by the threat of punishment.

<sup>90</sup> WN V.II.I.2, cf. LJ(A) 107, 208.

<sup>91</sup> In fact, Smith describes the origin of government as a conspiracy of the rich against the poor: 'Laws and government may be considered . . . as a combination of the rich to oppress the poor, and preserve to themselves the inequality of the goods which would otherwise be soon destroyed by the attacks of the poor' (LJ(A) 208). But this remark concerns only the origin of government; property rights nevertheless lead to a situation in which the poor are better off. In LJ(A) 104 Smith explicitly states that the 'magistrate' should act 'in the character of an impartial spectator'; the idea is also present in many other passages (e.g. LJ(A) 17, 32, 87, LJ(B) 434, 438, 475f.). On different courts and legal procedures see LJ(A) 274ff., LJ(B) 422ff.

<sup>92</sup> The 'equal and impartial administration of justice . . . renders the rights of the meanest British subject respectable to the greatest' (WN IV.VII.III.54), as is appropriate for a system of justice that takes on the perspective of an impartial spectator.

<sup>93</sup> Cf. e.g. WN III.II.3, LJ(A) 49f., 203.



disadvantage certain groups, for example, the apprenticeship regulations or the poor laws.<sup>94</sup> In addition, powerful groups like the 'merchants and manufacturers', supported by the ideology of mercantilism, guard their privileges and put pressure on the government to grant them more. Smith sharply criticizes such practices: they contradict the natural equality that the sovereign owes to all subjects:

To hurt in any degree the interest of any one order of citizens, for no other purpose but to promote that of some other, is evidently contrary to that justice and equality of treatment which the sovereign owes to all the different orders of his subjects.<sup>95</sup>

The challenge is thus to keep up legal equality in the face of vast inequalities of property and to make sure that 'the power of purchasing' does not lead to 'political power, either civil or military'.<sup>96</sup> This is not only a matter of justice, but also of making the market work: without secure property rights, people do not have incentives to work in socially useful—marketable—ways, but rather minimize their efforts.<sup>97</sup> This problem had marred feudal agriculture; it is also a strong—purely economical—argument against slavery.<sup>98</sup> To 'give *each one* the secure and peaceable possession of his own property'<sup>99</sup> is thus a precondition for the free market that needs to be secured by conscious human effort, rather than waiting for it to happen naturally.<sup>100</sup> The tendency of the legal and political system to be captured by those who are powerful in the *market*—a 'natural' tendency, in a sense—needs to be amended rather than imitated.<sup>101</sup> The basis of Smith's blueprint for a market society is a commitment to strong institutions that create equal legal conditions for all citizens.

The second dimension of the cooperation between nature and institutions is the free market, as a sphere of production and exchange. It takes place within the framework of personal rights and property rights; in this sense, it can be said that justice is a basic principle of the *Wealth of Nations*.<sup>102</sup> As long as he or she does

<sup>94</sup> WN I.X.I.14ff., I.X.II.41ff.

<sup>95</sup> WN IV.VIII.30.

<sup>96</sup> WN I.V.4.

<sup>97</sup> 'When people find themselves every moment in danger of being robbed of all they possess, they have no motive to be industrious' (LJ(B) 522), whereas 'when they are secure of enjoying the fruits of their industry, they naturally exert it to better their condition' (WN III.III.12). The importance of secure property rights for economic development has been confirmed by recent historical research, see e.g. Eric Jones, *The European Miracle. Environments, Economies and Geopolitics in the History of Europe and Asia* (Cambridge: Cambridge University Press, 2003), 85ff. Interestingly, even Mandeville, in the *Fable of the Bees*, admits the importance of justice for 'vice' to do its beneficial work: 'Vice is beneficial found, / When it's by Justice lopt and bound' (*The Fable of the Bees, Part I* (1714), *Part II* (1729), ed. F. B. Kaye (Oxford: Clarendon Press, 1924), vol. 37).

<sup>98</sup> Cf. e.g. WN III.II.9, LJ(A) 185ff., LJ(B) 522ff.

<sup>99</sup> LJ(A) 5, italics added.

<sup>100</sup> In this sense, James M. Buchanan describes 'laws and institutions' as 'public goods' that are 'antecedent to market-coordination' and need to be provided by political action ('Public Goods and Natural Liberty', in Thomas Wilson and Andrew S. Skinner (eds.), *The Market and the State: Essays in Honour of Adam Smith* (Oxford: Clarendon Press, 1976), 271–86, 277).

<sup>101</sup> This topic will be taken up in chap. 6.4 this volume. As to external defence, Smith argues for a standing army, as a militia will not be able to defend the growing riches of a commercial society against envious neighbours (WN V.II.39, LJ(B) 541ff.). Although there are some republican overtones in Smith's discussion of the militia issue, these refer mainly to the loss of martial spirit in commercial society through the division of labour (cf. also chap. 6, n. 25 of this volume).

<sup>102</sup> Cf. e.g. L. Billet, 'The Just Economy: The Moral Basis of the Wealth of Nations', *Review of Social Economy* 34(3) (1976), 295–315.

not violate the rights of others, every individual is 'free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man'.<sup>103</sup> Smith compares this to a race:

In the race for wealth, and honours, and preferments, he may run as hard as he can, and strain every nerve and every muscle, in order to outstrip all his competitors. But if he should justle, or throw down any of them, the indulgence of the spectators is entirely at an end. It is a violation of fair play, which they cannot admit of.<sup>104</sup>

In commercial society individuals pursue their interests through the propensity to 'truck, barter, and exchange one thing for another'.<sup>105</sup> Smith connects this principle to the human 'faculties of reason and speech'.<sup>106</sup> In the *Lectures* he emphasizes the 'naturall inclination every one has to persuade'.<sup>107</sup> When we offer another person 'a shilling' in a purchase we are 'in reality offering an argument to persuade one to do so and so as it is for his interest'.<sup>108</sup> Trade is thus the expression of a deeply human desire, which is unique among all animals.<sup>109</sup> Equally unique is the fact that what human beings desire in order to 'better their condition' is often not the satisfaction of biological needs. They care about the social meaning of goods and the attention from others that they can gain by acquiring certain things.<sup>110</sup> What individuals really desire is '[t]o be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation'.<sup>111</sup>

The 'desire of bettering our condition' is a very powerful force: it 'comes with us from the womb, and never leaves us till we go into the grave'.<sup>112</sup> It is the driving force behind the division of labour, which Smith sees as the main factor in the 'progress of opulence': it allows workers to improve their specialized abilities, to save time, and to invent useful machines.<sup>113</sup> The division of labour is thus 'not originally the effect of any human wisdom'; but rather 'the necessary, though very slow and gradual consequence' of the human 'propensity to truck, barter, and exchange one thing for another'.<sup>114</sup>

The division of labour depends on markets, because people who specialize in one branch of industry have to acquire all other goods they need by exchange. When specialized workers exchange their products among each other, trade is

<sup>103</sup> WN IV.IX.51.                      <sup>104</sup> TMS II.II.2.1.                      <sup>105</sup> WN I.II.1.

<sup>106</sup> WN I.II.2.                      <sup>107</sup> LJ(A) 352, cf. LJ(B) 493f.                      <sup>108</sup> LJ(A) 352.

<sup>109</sup> WN I.II.5, cf. also chap. 4.3 of this volume.

<sup>110</sup> This propensity—which Smith does not see as purely positive—will be discussed in more detail in chap. 6.2 of this volume.

<sup>111</sup> TMS I.III.2.1. It has to do with the fact that people sympathize more with joy than with sorrow (TMS I.III.1.5), and hence more with the rich and powerful than with the poor and powerless (TMS I.III.2.1). If it were otherwise, people would, in the hunt for attention, drag each other down in a race to the bottom, whereas given that the sympathy with the rich is stronger, the social development becomes a race to ever more refinement and luxury. Cf. also Hont and Ignatieff ('Needs and Justice in the Wealth of Nations', 10), who connect this point to Smith's rejection of Stoic *ataraxia*.

<sup>112</sup> WN II.III.28.

<sup>113</sup> WN I.I.5, cf. LJ(A) 344f.

<sup>114</sup> WN I.II.1. As Winch notes, similar reflections on the division of labour can already be found in Mandeville and in the *Encyclopédie* (*Riches and Poverty*, 88). For a discussion see also Craig Smith, *Adam Smith's Political Philosophy: The Invisible Hand and Spontaneous Order* (London: Routledge, 2005), 68ff.

no longer a zero-sum game. Rather, 'the gains of both [sides] are mutual and reciprocal'.<sup>115</sup> For Smith, all voluntary, uncoerced exchanges of goods and services count as market transactions: from the import of colonial luxury goods to the exchange of service for money between a street porter and a philosopher.<sup>116</sup> Smith describes how the size of a market depends on the means of transportation that determine the number of potential exchanges; this explains the significance of rivers and coastlines for commerce.<sup>117</sup>

In a free market the price mechanism adjusts the quantities of goods. If demand is higher than supply, the price will rise, and this will entice more people into this trade, until the price is lowered again; and vice versa, if supply is higher than demand.<sup>118</sup> Thus,

The quantity of every commodity brought to market naturally suits itself to the effectual demand. It is the interest of all those who employ their land, labour, or stock, in bringing any commodity to market, that the quantity never should exceed the effectual demand; and it is the interest of all other people that it never should fall short of that demand.<sup>119</sup>

Markets thus take over a task of coordination which could never be accomplished by an individual human being or a government, as 'no human wisdom or knowledge could ever be sufficient' for it.<sup>120</sup> Individuals only need to make judgments about their local situation, about how to make the best use of their human capital and money.<sup>121</sup> What makes markets so efficient is not only that people are highly motivated to further their own interests. It is also that markets create conditions in which competent judgments are made, as each individual knows his or her own situation best, and has incentives to acquire the information needed for making the right decisions.<sup>122</sup>

But Smith ascribes even more functions to markets: they not only coordinate supply and demand, they also maximize the national product and distribute

<sup>115</sup> WN III.I.1, cf. IV.III.II.2, LJ(A) 390. The only case in which trade is *not* mutually advantageous is when 'one of them be a fool and makes a bargain plainly ruinous' (LJ(A) 390). But normally this is not the case, and 'betwixt prudent men [a free commerce] must always be advantageous' (LJ(A) 390).

<sup>116</sup> WN I.II.5; cf. also Jerry Muller, *Adam Smith in His Time and Ours. Designing the Decent Society* (New York: The Free Press, 1993), 69; Emma Rothschild and Amartya Sen, 'Adam Smith's Economics', in Knud Haakonssen (ed.), *The Cambridge Companion to Adam Smith* (Cambridge: Cambridge University Press, 2006), 320–65, 322. On Smith's rhetorical use of the street porter see also Lisa Herzog, 'The Community of Commerce. Smith's Rhetoric of Sympathy in the Opening of the *Wealth of Nations*', *Philosophy and Rhetoric* 46(1) (2013), 65–87.

<sup>117</sup> WN I.III.

<sup>118</sup> WN I.VII, cf. LJ(A) 357ff., LJ(B) 496ff.

<sup>119</sup> WN I.VII.12. By 'effectual demand' Smith means demand that is backed up by purchasing power, not mere wishful thinking.

<sup>120</sup> WN IV.IX.51.

<sup>121</sup> Cf. also Haakonssen's distinction between 'contextual' and 'system' knowledge (*The Science of the Legislator*, 79)—ordinary people in a Smithian market only need to have contextual knowledge, not knowledge about the wider system within which they operate.

<sup>122</sup> See e.g. WN IV.V.Digr.25, I.X.II.12. For a discussion see Bhanu Pratap Mehta, 'Self-Interest and Other Interests', in Knud Haakonssen (ed.), *The Cambridge Companion to Adam Smith* (Cambridge: Cambridge University Press, 2006), 246–69, 251. This argument was later made famous by F. A. von Hayek: see in particular 'The Use of Knowledge in Society', *The American Economic Review* XXXV, no. 4 (1945), 519–30.

wealth in society. The free market is a race in which not only the winner, but also everyone else can profit. These two additional functions of markets can be ascribed to the two 'invisible hands' that appear in the *Wealth* and the *Theory*.<sup>123</sup>

The invisible hand of the *Wealth* leads to a large 'annual produce'. It appears in a discussion of the use of capital in agriculture, manufacturing, and trade, which have a descending order of productivity.<sup>124</sup> It is most beneficial for a country if capital is invested in these different sectors in this order, because

The most advantageous employment of any capital to the country to which it belongs, is that which maintains there the greatest quantity of productive labor, and increases the most the annual produce of the land and labor of that country.<sup>125</sup>

Nature achieves this outcome without any central planning. Investors usually have in mind 'their own advantage, indeed, and not that of the society'.<sup>126</sup> By giving the highest return to investments in agriculture,<sup>127</sup> and then in a descending order to the other sectors, nature leads investors by the 'study of [their] own advantage' to 'that employment which is most advantageous to society'.<sup>128</sup> It is this mechanism that Smith describes by the metaphor of the 'invisible hand':

He generally, indeed, neither intends to promote the publick interest, nor knows how much he is promoting it. By preferring the support of domestick to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.<sup>129</sup>

This 'invisible hand' is no mystical intervention by a deity, but rather a happy coincidence of private interest and common good. Smith, in his deistic framework, describes it as a wise contrivance of nature, while also providing an analysis of the causal mechanism that brings it about. The free market leads to a 'natural, healthful, and proper proportion' between different branches of business, which is optimal for the country.<sup>130</sup>

Whereas the first 'invisible hand' deals with investment and production, the second deals with distribution. It describes the transfer of wealth from the rich to the poor, so that all can profit from an increase in the 'annual produce'. For Smith,

<sup>123</sup> This distinction can also be found in Young, *Economics as a Moral Science*, 169ff. On the different invisible hands in Smith see also A. L. Macfie, 'The Invisible Hand of Jupiter', *Journal of the History of Ideas* 32 (1971), 595–9. Emma Rothschild (*Economic Sentiments: Adam Smith, Condorcet and the Enlightenment* (Cambridge, MA: Harvard University Press, 2001), chap. V) has recently argued that the idea of the invisible hand is no more than a 'mildly ironic joke' (116). This may be true for the rhetorical guise, but her arguments do not prove that the phenomenon is not taken seriously by Smith.

<sup>124</sup> WN II.V.12ff.

<sup>125</sup> WN IV.VII.III.35.

<sup>126</sup> WN IV.II.4.

<sup>127</sup> David McNally, *Political Economy and the Rise of Capitalism. A Reinterpretation* (Berkeley: University of California Press, 1988) reads Smith as a proponent of 'agrarian capitalism'. While McNally is right to reject views that anachronistically see Smith as a defender of 'Manchester capitalism', he assimilates him too much to the physiocrats, who took agriculture to be the *only* productive branch of the economy, a position from which Smith clearly distances himself (WN IV.IX).

<sup>128</sup> WN IV.II.4.

<sup>129</sup> WN IV.II.9.

<sup>130</sup> WN IV.VII.III.44.

the basic mechanism is simple: the rich man cannot consume all he acquires, as 'the capacity of his stomach bears no proportion to the immensity of his desires'.<sup>131</sup> What a rich man owns but cannot consume, 'he is obliged to distribute among those, who prepare . . . that little which he himself makes use of'.<sup>132</sup> The rich, in their 'selfishness and rapacity', thus unintentionally serve the poor and bring about an almost egalitarian distribution of goods:

They are led by an invisible hand to make nearly the same distribution of the necessities of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species.<sup>133</sup>

This works either because the poor profit directly from the goods the rich do not use any more,<sup>134</sup> or, more importantly, because the rich give them employment, and thus income.<sup>135</sup> No altruism on the part of the rich is needed: the poor 'derive from [the rich man's] luxury and caprice that share of the necessities of life, which they would in vain have expected from his humanity or his justice'.<sup>136</sup> Smith can put so much weight on self-interest in the market precisely because he thinks that a central task that other writers ascribe to benevolence, namely to take care of the poor and property-less, is fulfilled by the market process itself. If all can take part in the rising tide, inequality is not as problematic as it would otherwise be; what matters most for Smith is that the poor profit, and are much better off than in any other social order he could think of.<sup>137</sup> The 'establishment of perfect justice, of perfect liberty, and of perfect equality' is therefore the 'very simple secret which most effectually secures the highest degree of prosperity to all . . . classes'.<sup>138</sup> Because of these *natural* mechanisms, no conscious attempts to 'trade for the publick good' are needed, of which Smith claims 'never [to have] known much good done'.<sup>139</sup>

I have argued earlier that the metaphysical background of Smith's system includes the assumption that a benevolent deity has created the world, but also that Smith always provides causal explanations for the 'wisdom of nature'. If one abstracts from his optimistic deism, one is led to look in more detail at the conditions that must be fulfilled for the market to do its beneficial work, mention of which is scattered in the *Wealth* and the *Lectures*.

<sup>131</sup> TMS IV.I.10.

<sup>132</sup> TMS IV.I.10.

<sup>133</sup> TMS IV.I.10.

<sup>134</sup> TMS IV.I.10, cf. also WN II.III.39.

<sup>135</sup> Cf. e.g. WN IV.III.II.11.

<sup>136</sup> TMS IV.I.10.

<sup>137</sup> This topic will be taken up in chap. 5.3 of this volume.

<sup>138</sup> WN IV.IX.17.

<sup>139</sup> WN IV.II.9. The distributional effect of the market has sometimes been called 'trickle down effect', a notion that has been used in particular for justifying tax cuts for the rich in the 1980s in the United States (cf. e.g. John Quiggin, *Zombie Economics: How Dead Ideas Still Walk Among Us* (Princeton, NJ: Princeton University Press, 2010), chap. IV, for a critical discussion). As Quiggin rightly points out (147), the idea that everyone profits from a successful capitalist system does not mean that the poor could not profit even *more* from a capitalist system with more egalitarian features (e.g. through redistribution). Whether one can really claim Smith's name for the lowering of taxes for the super-rich can be doubted (cf. e.g. his remarks in WN V.I.III.I.5 and V.II.II.I.c.6 that it may well be appropriate for the rich to pay disproportionately higher taxes than the poor). More importantly, however, it is questionable whether the conditions for 'trickling down', as discussed in the following paragraphs, were in place in this period.

First of all, the economy must be growing—otherwise the employers will press wages down to subsistence level, or even lower, when the economy is declining.<sup>140</sup> But even in a rich country, ‘if it has been long stationary, we must not expect to find the wages of labour very high in it’.<sup>141</sup> Only constant growth keeps up the demand for workers, and thus also high wages. The problem that this growth might impose great burdens on the natural environment and endanger the ecological equilibrium of the earth is absent from Smith’s 18th-century perspective; as is the question about alternative ways of securing economic prosperity in a non-growing society.

In addition, for Smith the ‘annual produce’ of a country is simply the sum total of individuals’ profits.<sup>142</sup> He seems to assume that if an economy is growing all additional investments bring *new* profits rather than just a redistribution of the existing ones. Another striking detail is that Smith hardly worries about what has later been called ‘externalities’, that is, effects on third parties that are not captured in property rights and hence market prices.<sup>143</sup> He mentions that the state can demand the erection of ‘party walls, in order to prevent the communication of fire’, and can also limit the issuing of small bank notes that would destabilize the financial system.<sup>144</sup> But apart from that, his view heavily depends on the assumption that if one person strives to improve his or her situation, this does not have harmful effects on others—his argument about the ‘invisible hand’ is precisely that the others will *also* be better off.

In addition to these structural conditions, Smith makes a number of implicit assumptions about the economic realm which allow him to pass over problems that have occupied later thinkers. As Eric Schliesser points out, Smith does not see the possibility of ‘a negative trade-off between efficiency and welfare’; for him, all improvements on efficiency also raise welfare.<sup>145</sup> This makes sense if one assumes that economic activity usually creates employment and that workers can easily switch into these new jobs. Smith is also greatly optimistic about people’s ability to look after their own interests and to ‘better their condition’ in prudent ways. There will always be some who ruin themselves, for example, in cockfighting,<sup>146</sup> but in the Smithian society this seems to be a tiny minority. As he notes with regard to the use of capital, ‘the profusion or imprudence of some [is] always more than compensated by the frugality and good conduct of others’.<sup>147</sup> Trusting in the natural prudence of most people,<sup>148</sup> Smith did not seem to worry much about the question as to what a liberal commercial society should do with those who are unable or unwilling to look after their own interests, nor about how to make the trade-off between interests when their relationship is zero-sum.

These optimistic assumptions need to be scrutinized in more detail if one abstracts from the deism that props them up. Those who want to argue that a

<sup>140</sup> WN I.VIII.26.      <sup>141</sup> WN I.VIII.24.      <sup>142</sup> WN IV.II.9.

<sup>143</sup> Cf. also Muller, *Adam Smith in His Time and Ours*, 199.

<sup>144</sup> WN II.II.90.

<sup>145</sup> Schliesser, ‘Some Principles of Adam Smith’s Newtonian Methods’, 63.

<sup>146</sup> WN V.III.1.

<sup>147</sup> WN II.III.27.

<sup>148</sup> As will be discussed in chaps 5.2 and 6.2 of this volume, he also holds that the market itself incentivizes prudent behaviour.

broadly Smithian view is applicable to today's market economies have to pay particular attention to problems that arise from the fact that these assumptions are not always fulfilled.

But even for Smith, the optimistic deist, it would be wrong to leave *everything* to the market. Although the Smithian sovereign is 'completely discharged from . . . the duty of superintending the industry of *private people*',<sup>149</sup> he still has a considerable number of tasks. Smith summarizes them as

the duty of erecting and maintaining certain publick works and certain publick institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expence to any individual or small number of individuals, though it may frequently do much more than repay it to a great society.<sup>150</sup>

This is the third dimension in the division of labour between nature and institutions: some things that are desirable for the common good are *not* delivered by the market, and negative consequences of the market need to be mitigated. Smith sees the need for state action mainly in two areas: 'those for facilitating the commerce of the society, and those for promoting the instruction of the people'.<sup>151</sup> The first category includes infrastructure such as roads, canals, and ports,<sup>152</sup> but also a stable financial system, in which credits go to 'sober people' rather than 'prodigals and projectors'.<sup>153</sup> These institutions are beneficial for society because they enlarge the market, deepening the division of labour and thus raising productivity,<sup>154</sup> but they are not provided by private agents, as they are typical 'public goods' from which others cannot be excluded. The state has the task of coordinating the provision of, and payment—through taxes—for these socially useful goods.

The second category of state intervention concerns education and the physical and psychological well-being of the population. The issue Smith is most worried about are the negative consequences of the division of labour on the human mind. This problem is not only *not solved* by commercial society, but is *caused* by it, which makes it particularly pressing. It will be discussed in detail in chapter 6; at this stage, let me simply point out that Smith does not neglect these aspects, demonstrating that his commitment is not to economic growth as such, but rather to its consequences for people's lives. Just as the state should take measures to prevent the spread of 'leprosy or any other loathsome and offensive disease'—a statement not typically associated with Smith—it should monitor the psychological and intellectual health of its subjects, which is threatened by the consequences of the division of labour.<sup>155</sup>

Rather than rejecting any government action whatsoever, Smith thus argues for a clear delineation of the spheres in which the sovereign should be active, and those that should be left to 'private people' and the coordination through

<sup>149</sup> WN IV.IX.51, italics added. <sup>150</sup> WN IV.IX.51. <sup>151</sup> WN V.I.III.2.

<sup>152</sup> Cf. LJ(A) 372, WN I.IV.7, WN II.II.90ff. <sup>153</sup> WN II.IV.15. <sup>154</sup> Cf. WN I.III.

<sup>155</sup> WN V.I.III.II.60. As Alexander Cairncross underlines, Smith's criteria for state activity 'could be used to justify an extensive programme under modern conditions, however slight the programme he approved of in his own time' ('The Market and the State', in Thomas Wilson and Andrew S. Skinner (eds.), *The Market and the State: Essays in Honour of Adam Smith* (Oxford: Clarendon Press, 1976), 113–34, 113).

markets.<sup>156</sup> In his vision of 'natural liberty' the relation between the market and the state is a question of knowing what tasks have been taken care of by Nature's wise contrivances and what tasks need to—and can—be fulfilled through intentional political action.

## 2.6 CONCLUSION: THE VISION OF GENERAL OPULENCE

Smith's 'system of natural liberty' presents us with a subtle vision of the interplay between 'nature' and 'artifice', between the market and political and judicial institutions. It acknowledges inequality, but sheer unequal market power does not translate into inequality before the law, because impartial judges treat everyone equal. This, together with its good consequences, makes the 'system of natural liberty' the social order that an impartial spectator would be most likely to endorse, in contrast to the relevant alternatives, namely feudalism or mercantilism.

All people are thus free to earn their living, and will usually be able to make enough money to support themselves and their families. A well-ordered commercial society naturally arrives at 'opulence', a situation in which prices are low and wages are high, so that goods are 'easy to come by' for the bulk of the population, in particular the lower classes.<sup>157</sup> Again, Smith is concerned with the effects of institutions on people's *lives*; he vehemently argues against the mercantilist idea that the wealth of a country consists in money, which he takes to be at the root of many wrong-headed policies.<sup>158</sup> What matters is that the economy is growing in real terms, as this is 'in reality the cheerful and the hearty state to all the different orders of the society'.<sup>159</sup> The 'liberal reward of labour' 'encourages the propagation' and 'increases the industry of the common people', so that the workmen are 'more active, diligent, and expeditious' than when wages are low.<sup>160</sup>

In well-ordered markets, human self-interest is led into the right channels: it motivates people to better their condition in ways that are useful not only to themselves, but also to society as a whole, as they let the economy grow. Self-interest, however, must *not* reign in the spheres of law and politics.<sup>161</sup> Judges and

<sup>156</sup> Cf. also Winch, *Riches and Poverty*, 114, who expresses this point by saying that arguing for limited government intervention in the *economic* sphere is not the same as arguing for 'weak government' as such. See also Satz, *Why Some Things Should Not Be for Sale*, 43f., who argues that Smith's approach is characterized by anti-feudalism rather than an opposition to government. This also corresponds to the political position that has been ascribed to Smith: several authors agree that he was a moderate, non-dogmatic or 'sceptical' Whig (cf. in particular Duncan Forbes, 'Scientific Whiggism: Adam Smith and John Millar', *Cambridge Journal* 7 (1954), 643–70), and as such 'a supporter of a strong central government dominated by a modernizing and commercialized aristocracy' (Muller, *Adam Smith in His Time and Ours*, 171).

<sup>157</sup> WN I.VIII.36, cf. Fleischacker, *On Adam Smith's Wealth of Nations*, 133.

<sup>158</sup> WN II.II.18ff., II.II.86, IV.I.12ff., LJ(A) 378, LJ(B) 503. This point had already been forcefully argued by David Hume in his essay *On Money* (*Essays*, ed. Eugene F. Miller (Indianapolis: Liberty Classics, 1985)).

<sup>159</sup> WN I.VIII.43.

<sup>160</sup> WN I.VIII.44.

<sup>161</sup> And, as we shall see in chap. 4 of this volume, it must not destroy the personal ties people have in the private 'circles of sympathy'.



politicians need to take on an impartial stance: they must resist pressure by powerful sub-groups and keep in mind the good of *all*. Smith's system does not demand a lot of virtue in ordinary citizens, but it does rely on virtuous politicians who can move a society closer to the 'system of natural liberty', rather than giving in to the lobbying by 'merchants and manufacturers' to restrain the open market by privileges and monopolies.<sup>162</sup> This would destroy its beneficial distributive consequences and lead society back into a quasi-feudal state.<sup>163</sup> As Pratap Bhanu Mehta puts it, '[e]stablishing the "system of natural liberty" . . . is a *task* rather than something that comes naturally';<sup>164</sup> there is no 'invisible hand' in politics. The *Wealth* can in fact be read as a guidebook for a sovereign on how to establish a successful commercial society—after all, Smith calls political economy 'a branch of the science of a statesman or legislator'.<sup>165</sup> The art of good government consists in seeing where the market can solve problems on its own, and in intervening *only* when there are good reasons to doubt its ability to bring about the desired results. All interventions that go beyond this not only threaten to reduce the market's efficiency, but also unjustifiably violate the liberty of individuals.

As has been shown, Smith makes a number of factual assumptions about the free market that may not always be fulfilled—in particular, he assumes that it will usually lead to economic growth, and that this is desirable, as it improves the situation of the working poor. His optimistic deism may have led him to paint his picture of the market in more enthusiastic terms than the pure factual analysis would allow. If one does not share his metaphysical outlook, it is, in particular, the rich details and observations about economic life that are interesting for contemporary theorists. But Smith also holds that a political system does not have to be perfect for the market forces to do a lot of good.<sup>166</sup> If a country could only prosper under a perfect regime, no country 'could ever have prospered'.<sup>167</sup> The 'wisdom of nature', however, has made 'ample provision for remedying many of the bad effects of the folly and injustice of man', in the political body just as in the natural body.<sup>168</sup> Smith is no dogmatist of 'laissez-faire'; on the contrary: he argues for the 'principle of Solon': '[w]hen [a wise politician] cannot establish the right, he will not disdain to ameliorate the wrong; but like Solon, when he cannot establish the best system of laws, he will endeavour to establish the best that the people can

<sup>162</sup> Smith is well aware that institutional structures such as parliamentary control (cf. e.g. LJ(A) 260ff., LJ(B) 419f.) and the independence of judges (cf. e.g. LJ(A) 271ff., 313) play a central role in making sure that economic influence does not impinge on political and legal issues. But the question is who would put in place such institutions if they are not already there?

<sup>163</sup> WN IV.VIII.44, IV.VII.III.97, cf. Young, *Economics as a Moral Science*, 146. Politicians also need to resist the temptation to simply follow their *own* interests, a problem that Smith discusses time and again in the *Wealth* and in the *Lectures* (e.g. WN II.III.36, IV.I.30, V.II.1.6, V.III.26, V.III.59ff., LJ(A) 100f., LJ(B) 414; for a discussion see e.g. Fleischacker, *On Adam Smith's Wealth of Nations*, 229ff.) Smith's call for virtuous politicians is a theme that he shares with the civic republican tradition (cf. his praise of the virtuous politician in TMS VII.1.15; for discussions see e.g. McNally, *Political Economy and the Rise of Capitalism*, 191ff.).

<sup>164</sup> Mehta, 'Self-Interest and Other Interests', 257, referring to WN IV.IX.51.

<sup>165</sup> WN IV.Intr.1. This has been emphasized in particular by Winch (*Adam Smith's Politics*) and Knud Haakonssen (*The Science of the Legislator*; ed., *Traditions of Liberalism* (Sydney: The Centre For Independent Studies, 1988)).

<sup>166</sup> WN IV.IX.28.

<sup>167</sup> WN IV.IX.28.

<sup>168</sup> WN IV.IX.28.

bear'.<sup>169</sup> Politics is, for Smith, 'largely . . . a matter of balancing, checking and harnessing interests', as Winch puts it.<sup>170</sup> The more a politician knows about the 'contrivances of nature' and the ways in which they work for the public good, but also about their limits and the need for human initiative, the better he or she can fulfil this task. This is precisely the kind of knowledge that Smith provides in the *Wealth*, making it substantially more than an economics textbook. It is also a political programme: how best to govern a society in which *some* mechanisms are provided by nature, but in which institutions and regulations must be added by human action. The vision sketched in the *Wealth* is 'an attempt to widen his contemporaries' imagination about what [commercial] society could be'<sup>171</sup>—a society that is freer, more just, and more opulent. If one wants to revive Smith's heritage today, it is these ideals that one should focus on, rather than the concrete institutional details—for, as has been shown, these hinge on assumptions that are often not fulfilled in today's society. The erroneous perception of Smith that one often finds today has a lot to do with focussing on the *instruments* Smith suggests rather than the *reasons* for which he suggests them—and which might lead him to endorse very different instruments today.

Amartya Sen has distinguished between justifications of the market in purely instrumental terms, based on good results, and arguments that build on people's antecedent rights and freedoms.<sup>172</sup> In Smith, we clearly find both kinds of arguments: the free market allows people to make use of their property rights in socially productive ways, *and* it also leads to a 'liberal reward of labour' which is 'the natural symptom of increasing national wealth'.<sup>173</sup> With secure property rights—as well as other rights such as the liberty of speech and freedom of religion—and confident that the administration of justice will enforce their rights, all members of society can prosper. A *feeling* of security and confidence in a just legal framework are for Smith essential aspects of commercial society.<sup>174</sup> As Emma Rothschild puts it, freedom is a 'sort of feeling: in the words of the *Theory of Moral Sentiments*, to "breathe the free air of liberty and independence"'.<sup>175</sup> This freedom, *and* the opulence it brings, mark Smith's commercial society, and thus make it superior to all relevant alternatives.

These points show that Smith is an interlocutor worth taking seriously for contemporary political theorists. He is a systematic thinker who conceptualizes the market as part of a society, not as a separate entity. Rather than putting him into the box of 'economics' and ignoring him, it is worth reopening the question about Smith as a social theorist in a wider sense. At the same time, one has to be aware of the theological background of his system, and careful about the generalizability of his claims. But what his system offers is a nuanced, multifaceted view of

<sup>169</sup> TMS VI.II.2.16.

<sup>170</sup> Donald Winch, 'Adam Smith's "enduring particular result": a political and cosmopolitan perspective', in Istvan Hont and Michael Ignatieff (eds.), *Wealth and Virtue. The Shaping of Political Economy in the Scottish Enlightenment* (Cambridge: Cambridge University Press, 1983), 253–69, 266, cf. also *Adam Smith's Politics*, 177.

<sup>171</sup> Haakonssen, 'Introduction', 21.

<sup>172</sup> Amartya Sen, 'The Moral Standing of the Market', *Social Philosophy and Policy* 2 (1985), 1–19.

<sup>173</sup> WN I.VIII.27.

<sup>174</sup> WN V.I.II.25, LJ(A) 119, cf. Rothschild and Sen, 'Adam Smith's Economics', 336.

<sup>175</sup> TMS VII.III.140; cf. Rothschild, *Economic Sentiments*, 70.

the market and its place in a modern society. In this sense, it is a gross oversimplification to assume that Smith theorizes in more or less the same way as later economists who have worked with abstract, formal models. What we can learn from Smith is that there are much wider, more existential dimensions of the market than are present in the smooth algebra of contemporary textbook economics. This is what makes exploring Smith's thought so worthwhile from the perspective of political theory.

## Hegel's Construction of the Market: The 'Relics of the State of Nature'

### 3.1 INTRODUCTION: HEGEL THEN AND NOW

Adam Smith composed his major works before the two great political revolutions of the 18th century, the American and the French Revolutions, and also before the take-off of the third great 'revolution' of that era, the so-called Industrial Revolution. Georg Wilhelm Friedrich Hegel published his *Philosophy of Right*<sup>1</sup> in 1820, having seen not only these events, but also the rise and fall of Napoleon and the return of conservative forces in the German states. In philosophy, a 'revolution' in the form of Immanuel Kant's transcendental idealism had led to a completely new way of thinking about the relation between mind and world. Philosophy flourished in Germany at the turn from the 18th to the 19th century; thinkers like Johann Gottlieb Fichte, Friedrich Wilhelm Schelling, Friedrich Heinrich Jacobi and Hegel himself took up Kantian insights and transformed them into their own versions of 'idealism'. At the same time, the movement of Romanticism in art and literature left its own mark on the philosophy of this period.

Hegel is a child of this time, and it is extremely helpful to approach his vast intellectual system as 'its own time apprehended in thoughts', which was what Hegel took philosophy to be about.<sup>2</sup> But even when one takes into account the intellectual currents and historical events to which he reacted, his philosophy is in many places complex and obscure. Interpreters have contested almost every aspect of his system. Shortly after his death, his followers split into left-wing and right-wing Hegelians, all claiming to be his true heirs. This split still surfaces in contemporary clichés about Hegel: some see him as the forerunner of Marx and critical theory, others as a right-wing defender of the Prussian police state, who saw the state as the 'march of God in the world'<sup>3</sup> and who thus paved the way to fascism.

<sup>1</sup> In this and the following chapters, I draw mainly on the *Philosophy of Right*. Having worked mainly with the German original, I use the translation by Knox, which I have checked against the more recent translation by Nisbet. I also use the lecture notes, mainly those by Hotho and Grisheim, as they contain most details on economic issues. To my knowledge, they have not been translated into English, so all translations are my own. Occasionally, I draw on material from the *Phenomenology* or the Jena manuscripts. On the whole, however, the focus is on the late Hegel.

<sup>2</sup> PR Preface, 11. See in particular Pinkard's biography (*Hegel*) as an introduction to his time and thought.

<sup>3</sup> PR §258Z.

Nevertheless—or precisely *because* he is so obscure and multifaceted<sup>4</sup>—the interest in Hegel's philosophy has seen a revival in the last two or three decades. Hegel has long been influential in the German-speaking philosophical world, as is evident in two of the most important strands of post-WWII German thought: the 'Frankfurt School' with authors like Max Horkheimer, Theodor W. Adorno, Jürgen Habermas, and Axel Honneth, and the more conservative 'Münster School' initiated by Joachim Ritter. After the end of the cold war, the strong contrast between left-wing and right-wing Hegelians weakened, but the interest in his thought has remained vivid. While more historically orientated research by scholars like Otto Pöggeler, Dieter Henrich, or Walter Jaeschke continues to flourish,<sup>5</sup> younger scholars, often trained in 'analytic' philosophy, take a more systematic interest in Hegel, working on topics such as his philosophy of language or collective intentionality.<sup>6</sup>

In the English-speaking world, the revival of interest in Hegel started with J. N. Findlay's 're-examination'<sup>7</sup> and Charles Taylor's influential work on his political philosophy as a theory of modernity.<sup>8</sup> These works paved the way for a wide range of scholarship that focusses on Hegel's moral and political philosophy, trying both to understand the historical Hegel and to relate his philosophy to contemporary problems and debates. More recently, his epistemology and metaphysics have attracted new attention through the neo-pragmatism of Robert Brandom and John McDowell.<sup>9</sup> So-called 'continental' philosophy cannot claim a monopoly on Hegel any more; both 'analytic'<sup>10</sup> and 'poststructuralist'<sup>11</sup> thinkers—for what these labels are worth—engage with Hegel in constructive ways.

The literature on Hegel's political philosophy has grown extremely broad. Hegel's view of the economy has been examined in both the German and English context.<sup>12</sup> My account builds on insights from this literature, but adds a new focus,

<sup>4</sup> Cf. Katerina Deligiorgi, 'Introduction: On Reading Hegel Today', in Katerina Deligiorgi (ed.), *Hegel: New Directions* (Chesham: Acumen, 2006), 1–15, who writes that maybe the very complexity of his thought makes him 'a particularly apt object for interpretative ingenuity', 2.

<sup>5</sup> See e.g. Otto Pöggeler, *Hegels Kritik der Romantik* (Munich: Wilhelm Fink Verlag, 1956), Dieter Henrich, *Hegel im Kontext* (Frankfurt am Main: Suhrkamp Verlag, 1971), or Walter Jaeschke, *Die Religionsphilosophie Hegels* (Darmstadt: Wissenschaftliche Buchgesellschaft, 1983).

<sup>6</sup> Cf. e.g. Pirmin Stekeler-Weithofer, *Hegels Analytische Philosophie. Ein Kommentar zu Hegels 'Logik der Wissenschaft'* (Paderborn: Schöningh, 1992), Michael Quante, *Hegels Begriff der Handlung* (Stuttgart-Bad Cannstatt: Frommann-holzboog, 1993).

<sup>7</sup> J. N. Findlay, *Hegel: A Re-examination* (London: Allen & Unwin, 1958).

<sup>8</sup> Charles Taylor, *Hegel* (Cambridge: Cambridge University Press, 1975); *Hegel and Modern Society* (Cambridge: Cambridge University Press, 1979).

<sup>9</sup> Cf. e.g. Robert Brandom, *Tales of the Mighty Dead: Historical Essays in the Metaphysics of Intentionality* (Cambridge, MA: Harvard University Press, 2002), esp. chaps VI and VII; John McDowell, *Having the World in View: Essays on Kant, Hegel, and Sellars* (Cambridge, MA: Harvard University Press, 2009).

<sup>10</sup> E.g. most recently Angelica Nuzzo (ed.), *Hegel and the Analytic Tradition* (London: Continuum Books, 2010).

<sup>11</sup> E.g. Judith Butler, *Subjects of Desire: Hegelian Reflections in Twentieth-Century France* (New York: Columbia University Press, 1987); Jacques Derrida, *Glas*, trans. John P. Leavey (Lincoln: University of Nebraska Press, 1986).

<sup>12</sup> Georg Lukács, *The Young Hegel* (Zurich: Europa Verlag, 1948) was the first to analyse the economic aspects of Hegel's writings before the *Phenomenology* from a Marxist perspective.

since the place and role of the market in the structure of Hegel's political system—and its relevance for contemporary issues—have not been discussed in desirable depth so far. Contrasting his model with the Smithian 'system of natural liberty' throws new light on Hegel's economic theory, but also on the *Philosophy of Right* as a whole.

With Hegel, it is of particular importance to be clear about one's interpretative strategy, as his claim to have constructed a philosophical system is a challenge for commentators who want to focus on particular aspects of his thought. As I argue in the next section, there are nevertheless strong reasons for focussing exclusively on his practical philosophy, especially if one aims at relating his thought to contemporary questions. In fact, this does not contradict Hegel's own intentions as much as some commentators have held. In the third section, two key concepts of Hegel's practical philosophy are discussed: *Geist* and *Sittlichkeit*. I argue that we can make sense of them without falling into obscurantism or quietism; I also take the occasion to comment on Hegel's political views. I then discuss his account of the market, which builds on insights from political economy, but describes a sphere that is much more chaotic and Dionysian than the Smithian market. I conclude by reflecting on the ways in which Hegel characterizes the market as a specifically modern achievement, which, despite all its problems, has to be endorsed because it embodies subjective freedom.

### 3.2 THE LIVING AND THE DEAD IN HEGEL<sup>13</sup>

Hegel is convinced that philosophy can only be written in the form of a system. Only in a system can contents be seen 'as a moment of the whole',<sup>14</sup> and thus be more than 'personal peculiarities of mind'.<sup>15</sup> The Hegelian system, however, and

Early post-WWII contributions include Paul Chamley's work on Stewart's influence on Hegel (*Économie politique et philosophie chez Stuart et Hegel* (Paris: Dalloz, 1963); 'Les origines de la pensée économique de Hegel', *Hegel-Studien* III (1965), 225–61), and Manfred Riedel's discussion of the economy and 'civil society' in *Zwischen Tradition und Revolution. Studien zu Hegels Rechtsphilosophie* (Frankfurt am Main: Suhrkamp, 1969). Since then, a large number of publications have discussed Hegel's economic thought, sometimes explicitly referring to Smith's influence. The research up to 1991 is summarized in James P. Henderson and John B. Davies, 'Adam Smith's Influence on Hegel's Philosophical Writings', *Journal of the History of Economic Thought* 13(2) (1991), 184–204. Commentaries on Hegel's economic theory more generally include, for example, Joachim Ritter's discussion of Hegel's notion of property ('Person and Property', in *Hegel and the French Revolution: Essays on the Philosophy of Right*, translated by Richard Dien Winfield (Cambridge, MA: MIT Press, 1982), 124–50), the essays in William Maker (ed.), *Hegel on Economics and Freedom* (Macon, GA: Mercer University Press, 1987), Birger Priddat's analysis of Hegel's economic thought (*Hegel als Ökonom*), Hans-Christoph Schmidt am Busch's discussions of Hegel's account of labour and the role of 'recognition' in his economic thought (*Hegels Begriff der Arbeit* (Berlin: Akademie-Verlag, 2002); 'Anerkennung' als *Prinzip der kritischen Theorie* (Berlin, New York: De Gruyter, 2011)), and Albena Neschen's exploration of the development of Hegel's economic views (*Ethik und Ökonomie in Hegels Philosophie und in modernen wirtschaftsethischen Entwürfen* (Hamburg: Meiner, 2008)).

<sup>13</sup> This line is, of course, an allusion to Benedetto Croce's *What Is Living and What Is Dead of the Philosophy of Hegel*, translated by Douglas Ainslie (London: Macmillan, 1915).

<sup>14</sup> Enc §14Z.

<sup>15</sup> Enc §14.

in particular its foundation, the *Logic*, are notoriously obscure and difficult to interpret. While some commentators argue that one can make sense of its basic idea of 'reconstructing the movement in which thought has brought about the conceptual determinations that constitute reality as we know it',<sup>16</sup> more sceptical readers see it as a 'sheer Neo-Platonic fantasy'.<sup>17</sup> On the other hand, some of Hegel's writings on historical, cultural, and social issues are quite accessible and full of inspiring insights. Hegel himself, however, takes it that their complete philosophical understanding is possible only if all parts of his interrelated system are taken into account.

This leaves modern readers of Hegel in a dilemma. Either we return to Hegel's system and try harder to understand it as a whole. Or we take a piece-meal approach, picking and choosing from his system what we take to be its most interesting or inspiring aspects—but then, can we claim that this is still *Hegel's* philosophy?<sup>18</sup>

Commentators on Hegel's political philosophy are indeed divided between what Thom Brooks has called 'systematic' and 'non-systematic' readings.<sup>19</sup> While the former (e.g. Stephen Houlgate, Michael Inwood, Michael Rosen, Robert Stern, and Brooks himself) interpret Hegel from the point of view of his system, and by and large forgo the attempt to gain insights for contemporary questions, the latter (e.g. Frederick Neuhouser, Alan Patten, and Alan W. Wood) deal with Hegel's practical philosophy separately—they practise what Frederick Beiser has described as separating the 'rational core' from the 'mystical shell'.<sup>20</sup> The charge raised against the latter strategy is, of course, that it fails to take seriously Hegel's own self-understanding.<sup>21</sup>

A detached interpretation of Hegel's political philosophy with an eye to its contemporary relevance, however, is less in contradiction of the spirit of Hegel's system than some commentators have claimed. Hegel's central claim is that there is a rational structure in the universe, and that it is the task of philosophy to explore this structure: 'To comprehend what is, this is the task of philosophy, because what is, is reason'.<sup>22</sup> This implies that the rational structure of the real—what Hegel calls the 'actual'—must show up in all parts of reality, and hence in all areas of philosophy. The different parts of reality, which are covered in the

<sup>16</sup> Cf. Karin de Boer, 'The Dissolving Force of the Concept: Hegel's Ontological Logic', *The Review of Metaphysics* 57 (2004), 787–822, 804.

<sup>17</sup> Michael Rosen, *Hegel's Dialectic and its Criticism* (Cambridge: Cambridge University Press, 1982), 179.

<sup>18</sup> Cf. in particular Rolf-Peter Horstmann, 'What is Hegel's Legacy and What should We do With It?' *European Journal of Philosophy* 7(2) (1999), 275–87.

<sup>19</sup> Thom Brooks, *Hegel's Political Philosophy: A Systematic Reading of the Philosophy of Right* (Edinburgh: Edinburgh University Press, 2007), 5ff.

<sup>20</sup> Frederick C. Beiser, 'Introduction: Hegel and the Problem of Metaphysics', in Frederick Beiser (ed.), *The Cambridge Companion to Hegel* (Cambridge: Cambridge University Press, 1993), 1–24, 3.

<sup>21</sup> Cf. e.g. Brooks, *Hegel's Political Philosophy*, 13ff.

<sup>22</sup> PR, Preface, 11. Cf. also the famous *Doppelsatz*: 'What is rational is actual and what is actual is rational' (PR, Preface, 10, cf. Enc §6). My interpretative strategy is in line with Robert Stern's reading of the *Doppelsatz* as a methodological statement in which Hegel reminds 'his readers that philosophy has a basic commitment to reason as the proper way to engage with the world at a fundamental level' ('Hegel's *Doppelsatz*: A Neutral Reading', *Journal of the History of Philosophy* 44(2) (2006), 235–66, 236).

different parts of Hegel's system, all have a 'logic' of their own: the rationality of this particular sphere, which has a certain completeness. As he says:

Each of the parts of philosophy is a philosophical whole, a circle rounded and complete in itself. In each of these parts, however, the philosophical Idea is found in a particular specificity or medium. The single circle, because it is a real totality, bursts through the limits imposed by its special medium, and gives rise to a wider circle. The whole of philosophy in this way resembles a circle of circles.<sup>23</sup>

The structure of reality is mirrored in Hegel's philosophy, which forms a 'system of nested triads'<sup>24</sup> or inter-related circles. This provides a justification for focusing on one of these 'circles', in our case, the circle that Hegel calls 'objective' *Geist*: the social and political world. Its rational structure is explored in Hegel's political philosophy.<sup>25</sup>

The central idea of Hegel's political philosophy is the idea of right, the basis of which is the free will:

The subject-matter of the philosophical science of right is the Idea of right, that is, the concept of right together with the actualization of that concept.<sup>26</sup>

The basis of right is, in general, mind; its precise place and point of origin is the will. The will is free, so that freedom is both the substance of right and its goal, while the system of right is the realm of freedom made actual, the world of mind brought forth out of itself like a second nature.<sup>27</sup>

The *Philosophy of Right* thus deals with a specific subject matter that is developed in a rational way: it asks how freedom can be realized in the world through right. Alan Patten calls this approach a 'self-actualizing' reading: it understands Hegel as exploring the conditions for actualizing rational freedom in the modern state.<sup>28</sup> The *Philosophy of Right* is understood as a 'demonstration that existing institutions and practices promote, or provide the locus for, human self-actualization'.<sup>29</sup>

Such a reading consciously restrains itself to what Hegel has to say about the question of how human freedom can be realized in a society.<sup>30</sup> It remains agnostic on the wider claims of his system and their contemporary significance. As commentators such as Wood, Neuhouser, or Patten show, many of the claims of Hegel's practical philosophy are intelligible without delving into the muddy

<sup>23</sup> Enc §15.

<sup>24</sup> M. J. Inwood, *Hegel* (London: Routledge, 1983), 262.

<sup>25</sup> PR, Preface, 11. As Frederick Neuhouser, for example, argues, the claim that the modern social order is rational is 'logically prior to his grander claim that reason (or God) pervades all of reality', so if the former can be shown, it might serve as a proof for the latter (*Foundations of Hegel's Social Theory: Actualizing Freedom* (Cambridge, MA: Harvard University Press, 2000), 271).

<sup>26</sup> PR §1.

<sup>27</sup> PR §4. Cf. also §31, where Hegel says that 'mind in its freedom, the culmination of self-conscious reason . . . gives itself actuality and engenders itself as an existing world'. On Hegel's account of the will see e.g. Dudley Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right* (London: Routledge, 2002), chap. II.

<sup>28</sup> Alan Patten, *Hegel's Idea of Freedom* (Oxford: Oxford University Press, 1999), chap. I.

<sup>29</sup> Patten, *Hegel's Idea of Freedom*, 9.

<sup>30</sup> This also means that *political and social* aspects of freedom are at the centre of this reading; it does not discuss 'absolute' *Geist* and the freedom that is realized in art, religion, and philosophy.



waters of his logic. At the same time, one needs to be aware that some steps in the argument of the *Philosophy of Right* are difficult to understand without taking into account the wider context of his system. If some logical structure from the larger system is the *only* argument for a claim, then it is likely that we will find it problematic from a modern point of view. We must find other reasons to support it, or reject it.

By approaching Hegel in this way, we can engage with his arguments about freedom and the way in which it can be realized in the world—not only because, as Rosen holds, reading Hegel teaches us something about ourselves,<sup>31</sup> but also because he is one of the most serious and interesting thinkers on this topic.<sup>32</sup> To do this, however, two Hegelian concepts need to be addressed explicitly, as one cannot make sense of his approach and strategy without taking these into account: *Geist* and *Sittlichkeit*.

### 3.3 GEIST AND SITTlichkeit

The German term *Geist* means both 'spirit' and 'mind', and also has religious connotations, as in 'the Holy Spirit'.<sup>33</sup> It is a key concept of Hegel's practical philosophy, but it has also been prone to numerous misunderstandings. In the *Phenomenology*, in which Hegel describes the development of consciousness towards absolute knowledge, *Geist* appears at the stage at which consciousness becomes *self-conscious*, and then 'finds satisfaction' in (i.e. can only be complete in) another self-consciousness.<sup>34</sup> *Geist* describes this self-conscious and intersubjective dimension of consciousness, as

this absolute substance which is the unity of the different independent self-consciousnesses which, in their opposition, enjoy perfect freedom and independence: 'I' that is 'We' and 'We' that is 'I'.<sup>35</sup>

The stage of *Geist* is reached after the unsuccessful attempts of *one-sided* demands for recognition, which lead to the life-and-death struggle and the dialectic of lordship and bondage.<sup>36</sup> Whereas in this struggle each individual tries to subjugate the other, in *Geist* they recognize each other as free and equal. In this mutual recognition, individuals can be united in a way that does not threaten their separate existence, and yet makes them part of a larger unit.<sup>37</sup> Examples of this

<sup>31</sup> Rosen, *Hegel's Dialectic and its Criticism*, 180.

<sup>32</sup> Cf. similarly Alan W. Wood, *Hegel's Ethical Thought* (Cambridge: Cambridge University Press, 1990), 5.

<sup>33</sup> I use the German word as a technical term (except for direct quotes where I stick to the translation).

<sup>34</sup> PS #176.

<sup>35</sup> PS #177.

<sup>36</sup> PS #187ff., cf. also Enc §436 and Z.

<sup>37</sup> I assume, with Robert R. Williams (*Hegel's Ethics of Recognition* (Berkeley/London: University of California Press, 1997)) and Robert B. Pippin (*Hegel's Practical Philosophy: Rational Agency as Ethical Life* (Cambridge: Cambridge University Press, 2008), esp. chap. VII) that recognition remains an important aspect of Hegel's philosophy throughout his life, not just in his early writings. Hegel's early

can be found in the family, in sexual love, patriotism, love towards God, honour, or the bravery of ‘risking . . . one’s life in a universal cause’.<sup>38</sup> The individuals are ‘sublated’ (*aufgehoben*) in such social units in the double sense of being ‘set aside’ and being ‘preserved’.<sup>39</sup> Robert Pippin holds that in these different sorts of ‘collectively achieved . . . human mindedness’ normativity is created: in their intersubjective relations, men give themselves norms, follow them and hold each other responsible for observing them.<sup>40</sup> In this sense, *Geist* is autonomous: its ‘essence’ is freedom,<sup>41</sup> and the individuals in it are free because they obey only laws that they themselves have created.

Hegel holds that *Geist* forms a conception of itself, namely, is self-conscious. This has sometimes been interpreted as equating *Geist* with the transcendent, personal God of Christianity. One can indeed find some passages that support this reading: for example, Hegel talks about God ‘ruling the world’ and describes history as ‘the execution of his plan’.<sup>42</sup> It is more plausible, however, to read these passages as metaphorical, and to rely on those passages that describe *Geist* as immanent to the world. For Hegel, *Geist* realizes itself in human consciousness, as passages such as the following show:

The province of the spirit is created by man himself; and whatever ideas we may form of the kingdom of God, it must always remain a spiritual kingdom which is realized in man and which man is expected to translate into actuality.<sup>43</sup>

The universal spirit is essentially present as human consciousness. Knowledge attains existence and being for itself in man. The spirit knows itself and exists for itself as a subject, and its nature is to posit itself as immediate existence: as such, it is equivalent to human consciousness.<sup>44</sup>

According to such an ‘immanent’ reading, God is nothing other than the whole of the universe, constituted by the realms of nature and of *Geist*, where it becomes self-conscious.<sup>45</sup> The meaning of Christianity, in this context, is that it brought to light the unity of the divine and the human, ‘the infinite and the finite’, in the person of Christ. This is, for Hegel, ‘the true Idea of religion’.<sup>46</sup>

*Geist* is thus always embodied and expressed in the minds of historical individuals and communities. As Beiser points out, Hegel, in an Aristotelian fashion, ‘insists that no universal can exist on its own apart from, and prior to, particular things’. Beiser draws attention to the Aristotelian distinction between being first

theory of recognition has been at the centre of much ‘Hegelian’ or ‘Hegel-inspired’ political philosophy in the last decades. These authors mainly refer to the *Phenomenology*, and rightly so: in Hegel’s later political writings, recognition is not a main theme—it is rather *presupposed* as a basic feature of a free society that individuals recognize each other as free and equal (cf. e.g. Enc §432Z).

<sup>38</sup> Cf. Enc §436Z.

<sup>39</sup> Enc §96.

<sup>40</sup> Pippin, *Hegel’s Practical Philosophy*, 16, 65, 113.

<sup>41</sup> E.g. PS #584.

<sup>42</sup> PS #36. Cf. Joseph McCarney, *Routledge Philosophy Guidebook to Hegel on History* (London: Routledge, 2000), 40ff. for a discussion.

<sup>43</sup> PH (Nisbet), 44.

<sup>44</sup> PH (Nisbet), 95, cf. also Enc §378Z.

<sup>45</sup> Cf. McCarney, *Routledge Philosophy Guidebook to Hegel on History*, 40ff.

<sup>46</sup> PS #106, cf. also Enc §564ff. and PR §358f. on the ‘Germanic realm’.

'in order of explanation' and being first 'in order of existence'.<sup>47</sup> It certainly sounds, in many places, as if Hegel is making *Geist* an explanatory principle, but this does not mean that *Geist* is *ontologically* separate. *Geist* is no supra-human entity for which individuals merely serve as 'vehicles';<sup>48</sup> fears that individuals might be sacrificed for the sake of *Geist* are out of place. Rather, as Joseph McCarney puts it, 'Hegel's God is the product of human history'.<sup>49</sup> In his social and political philosophy, Hegel explores the development of *Geist* as this collective mindedness of human beings.

A second concept, related to *Geist*, that is central for making sense of Hegel's political philosophy is *Sittlichkeit*. It stems from the word '*Sitte*', which means custom, and describes the customary roles of individuals in the institutions of family, civil society, and state.<sup>50</sup> Hegel says that it is *Geist* 'living and present as a world':<sup>51</sup> social norms and institutions, and the attitudes people nurture in them, are the result of a historical development in which human beings have come to grant each other rights and freedoms, creating a stable and lasting social whole. Not just *any* set of institutions count as *Sittlichkeit* for Hegel; rather, they need to be 'reasonable', embedding the most advanced conception of human freedom present in a historical period.<sup>52</sup> The *Sittlichkeit* of the modern state described in the *Philosophy of Right* is a constitutional state that includes the realms of the family and of the private economy, in which individuals are given a broad range of rights and liberties. It thus embodies the most developed insights into the rights of individuals to 'subjective' freedom. As Hegel says, in a key passage on his understanding of the modern state:

The principle of modern states has prodigious strength and depth because it allows the principle of subjectivity to progress to its culmination in the extreme of self-subsistent personal particularity, and yet at the same time brings it back to the substantive unity and so maintains this unity in the principle of subjectivity itself.<sup>53</sup>

<sup>47</sup> Frederick C. Beiser, 'Hegel's historicism', in Frederick C. Beiser (ed.), *The Cambridge Companion to Hegel* (Cambridge: Cambridge University Press, 1993), 270–300, 290ff. Cf. e.g. Enc §24Z, where this is discussed with regard to the notion 'animal'.

<sup>48</sup> This phrase from Charles Taylor's influential account has become famous (e.g. *Hegel*, 90, 380; *Hegel and Modern Society*, 11, 26). Taylor himself emphasizes the necessity of *Geist* being embodied, but as a number of commentators have pointed out, the danger of Taylor's reading is that it makes the individuals *nothing but* vehicles (e.g. Patten, *Hegel's Idea of Freedom*, 17ff.). There are indeed some passages that seem to indicate that individuals can be sacrificed for the sake of *Geist* (e.g. PR §323, §344). As Neuhaus points out, however, one has to distinguish Hegel's claims about *history* from his claims about the fully developed *Sittlichkeit* of the modern state (*Foundations of Hegel's Social Theory*, 217)—in the modern state, individual freedom is always preserved (see e.g. PR §265, 268, cf. hereafter and chap. 6.4). This reading leaves open the possibility that Hegel may *also* have a story about the development of *Geist* itself that takes place on a different ontological level, as it were.

<sup>49</sup> McCarney, *Routledge Philosophy Guidebook to Hegel on History*, 170. Cf. also Stephen Houlgate, 'World History as the Progress of Consciousness: An Interpretation of Hegel's Philosophy of History', in Robert Stern (ed.), G. W. F. Hegel: *Critical Assessments* (London: Routledge, 1993), 402–16, 409f.

<sup>50</sup> Cf. PR §151.

<sup>51</sup> PR §151.

<sup>52</sup> Cf. Michael O. Hardimon, *Hegel's Social Philosophy: The Project of Reconciliation* (Cambridge: Cambridge University Press, 1994), 110.

<sup>53</sup> PR §260. See also chap. 6.4.

The fact that Hegel chooses *Sittlichkeit* as the level of analysis has often been associated with his criticism of Kant's moral philosophy.<sup>54</sup> Hegel discusses 'Morality' in §105ff. of the *Philosophy of Right*. It describes the standpoint of the self-determining will, in the sense of Kantian autonomy.<sup>55</sup> As abstract reason, however, it cannot generate concrete moral principles; the principle of non-contradiction, on which Kant's categorical imperative is based, is compatible with a wide range of different social norms.<sup>56</sup> The abstract good will is left with an empty 'ought-to-be, or demand';<sup>57</sup> a phenomenon which Hegel sometimes associates with the figure of the 'beautiful soul' that wants to do good but does not know how.<sup>58</sup> In addition, the social world to which one would, on a Kantian model, 'apply' the categorical imperative, is not normatively empty. As expressions of *Geist*, constituted by the mutual recognition of individuals, social rules and institutions have a normativity of their own.

What is needed, Hegel argues, is therefore a structure in which the 'good' (morality) and the 'right' (abstract law) are fused, or 'dialectically sublated': the good needs to be realized through the legal and customary structures of a society. If this happens, the individuals can see the rules and institutions under which they live as emanating from their own will, and thus not as limitations of their freedom, but as the *social* realization of their freedom.<sup>59</sup> The 'system of rights' is thus 'the realm of freedom made actual, the world of mind (*Geist*) brought forth out of itself like a second nature'.<sup>60</sup> In the 'reasonable' *Sittlichkeit* of the modern state described in the *Philosophy of Right*, individuals realize the good by fulfilling the duties that their social roles impose on them; in this sense Hegel says that the individual 'finds his liberation' in doing his or her duty.<sup>61</sup> In doing one's duty one is free, as one is not driven by biological needs and instincts any more; the conflict between reason and inclination—which Hegel sees as a great challenge in Kant's moral philosophy—is overcome, as is the passivity and paralysis of the 'beautiful soul'.<sup>62</sup> In a social whole that the individuals can recognize as reasonable, the social order is experienced by the individuals not as something externally imposed, but as the realization 'of their own essence or their own inner universality'.<sup>63</sup> In *Sittlichkeit* one can be 'with oneself in the other',<sup>64</sup> and thus truly free.

For Hegel this is the only way in which human freedom—including freedom in the sense of 'doing what one wants'—is possible. As Patten emphasizes, the

<sup>54</sup> Cf. in particular Joachim Ritter, 'Morality and Ethical Life', in *Hegel and the French Revolution: Essays on the Philosophy of Right*, trans. Richard Dien Winfield (Cambridge, MA: MIT Press, 1982), 151–82, who speaks of a 'sublation' of Kant's theory.

<sup>55</sup> Cf. PR §107.

<sup>56</sup> Cf. PR §135: 'no immanent doctrine of duties is possible' from this standpoint; cf. also Enc §508. Hegel's example is the compatibility of both a system of private property and a system of communal property with the categorical imperative.

<sup>57</sup> PR §108.

<sup>58</sup> E.g. Griesheim, 402. Cf. Taylor, *Hegel*, 194, for a discussion.

<sup>59</sup> Cf. Enc §431Z. This will be discussed in chap. 6.4 of this volume.

<sup>60</sup> PR §4.

<sup>61</sup> PR §149, cf. PR §261, Enc §538f., Griesheim, 403. For a discussion see e.g. Axel Honneth, *Leiden an Unbestimmtheit. Eine Reaktualisierung der Hegelschen Rechtsphilosophie* (Stuttgart: Reclam, 2001), chaps III–IV.

<sup>62</sup> For this, the notion of *Bildung* is important, which will be discussed in chaps 4.3.2 of this volume.

<sup>63</sup> PR §153, cf. also §147.

<sup>64</sup> Enc §24Z.

development of thought in the *Philosophy of Right* presents different attempts to describe what human freedom is. All turn out to be deficient or self-contradictory, until the movement arrives at modern *Sittlichkeit*. In it, all these previous forms are 'sublated', that is, negated as self-sufficient principles, transformed, and preserved as part of the larger whole.<sup>65</sup>

The task of philosophy vis-à-vis the *Sittlichkeit* of the modern state is to show the reasonableness, that is, conduciveness to freedom, of these normative structures, and thus to reconcile individuals with their situation.<sup>66</sup> Hegelian philosophy does not draw utopian visions of what things *might* look like;<sup>67</sup> rather, as he famously puts it, 'the owl of Minerva spreads its wings only with the falling of the dusk'.<sup>68</sup> This has brought upon him the charge of quietism and of a submissive acceptance of traditional hierarchies. But the 'actual' which Hegel equates with the 'rational' is not everything that exists. As he says in the *Encyclopedia*, the actual needs to be distinguished 'not only from the fortuitous, which, after all, has existence, but even from the cognate categories of existence and the other modifications of being'.<sup>69</sup> As numerous commentators have pointed out, this distinction creates a critical space for reform.<sup>70</sup> For Hegel, no state is ever perfect, implying that there is always room for improvement:

The state is no ideal work of art; it stands on earth and so in the sphere of caprice, chance, and error, and bad behaviour may disfigure it in many respects. But the ugliest of men, or a criminal, or an invalid, or a cripple, is still always a living man . . .<sup>71</sup>

Understanding the basic reasonableness of the state is thus compatible with criticizing its flaws. Hegel himself engages in critical discussions of political questions of his time, for example, in his essay on the Wuerttemberg Estates and the reflections on the English Reform Bill.<sup>72</sup> Taking into account the difference between 'actuality' and 'existence' helps to avoid reading Hegel as a political conservative with fascist affinities. The charges of anti-liberalism or even totalitarianism, brought forward in the 19th century and the first half of the 20th century by thinkers like Rudolf Haym or Karl Popper, are now widely recognized as unfair to the spirit of Hegel's political philosophy, even if his views may not seem sufficiently liberal from a contemporary perspective.

Hegel believes in the principle that the state should be founded on reason, not on tradition or mere power.<sup>73</sup> But he also sees the danger of a political system that is built *exclusively* on the principle of individual autonomy. His aim is to combine

<sup>65</sup> PR §141f., cf. Patten, *Hegel's Idea of Freedom*, 179ff.

<sup>66</sup> The aspect of reconciliation in Hegel's philosophy has been emphasized in particular by Hardimon, *Hegel's Social Philosophy*.

<sup>67</sup> PR, Preface, 11, cf. Enc §6.

<sup>68</sup> PR, Preface, 12f.

<sup>69</sup> Enc §6.

<sup>70</sup> For discussions see e.g. Wood, *Hegel's Ethical Thought*, 8ff.

<sup>71</sup> PR §258Z. Note, however, that the potential for *reform* is not the same as the potential for a full-scale revolution; the French Revolution, which Hegel takes to be *the* breakthrough to modernity, has after all already taken place (cf. Beiser, 'Hegel's Historicism', 293f.).

<sup>72</sup> *Hegel's Political Writings*, 243–94 and 295–330.

<sup>73</sup> Cf. e.g. PR §258. For a discussion see in particular the influential account by Joachim Ritter, *Hegel and the French Revolution: Essays on the Philosophy of Right*, trans. Richard Dien Winfield (Cambridge, MA: MIT Press, 1982).

'modern' subjective freedom with the 'ancient' principle of *Sittlichkeit*, the substantial ethical life of the Greek polis.<sup>74</sup> His concrete political suggestions are closest, in his time, to those by statesmen like Karl August von Hardenberg, Wilhelm von Humboldt, or Heinrich vom und zum Stein, who wanted to reform Prussia along liberal lines.<sup>75</sup> The institutional structure described in the *Philosophy of Right* is not that of any existing state, least of all of the Prussia of his day, which was already on the brink of relapsing into conservatism.<sup>76</sup> Hegel's political system comprises numerous liberal elements, such as the rule of law,<sup>77</sup> free choice of profession,<sup>78</sup> extensive religious toleration and liberty of conscience,<sup>79</sup> and freedom of opinion and of the press.<sup>80</sup>

Of course, there are aspects of Hegel's social philosophy that do not seem defensible from today's perspective, such as his views on gender and on the character of the different estates (in particular his view of the 'substantial' character of the rural population), his defence of a constitutional monarchy without general suffrage, his views on war and international conflict, or his ambiguous views on poverty, to name just the most obvious candidates. But it is plausible that one can find modern equivalents for these views that do not require the metaphysical or methodological background of Hegel's *Logic*, which he often employs when arguing for these. For example, it is possible to see the family as a place where a specific kind of liberty is realized while at the same time rejecting Hegel's views on women.<sup>81</sup> One can thus keep a 'broadly Hegelian' view,<sup>82</sup> without accepting all the details of his account, which remains, after all, a text from the early decades of the 19th century.

### 3.4 HEGEL'S ACCOUNT OF THE MARKET SOCIETY

Having clarified the approach to Hegel taken in this study, we can now turn to his views on the market. When describing the market economy as part of *Sittlichkeit*, Hegel draws on what had become a separate scientific discipline, 'political economy'. In Hegel's time, the writers of the Scottish Enlightenment were widely

<sup>74</sup> Cf. e.g. PR §260.

<sup>75</sup> Wood, *Hegel's Ethical Thought*, 13.

<sup>76</sup> Cf. e.g. T. M. Knox, 'Hegel and Prussianism', *Philosophy* 15(57) (1940), 51–63, 55. Iltting, in the introduction to his edition of lecture notes, has brought forward the thesis of Hegel's 'accommodation' to the censorship in the time after the Carlsbad decrees of 1819, according to which Hegel made himself appear more conservative in the published text of PR for reasons of 'self-protection'. This is implausible, however, given that many of the positions of PR (e.g. on the role of the monarch, the evaluation of the French Revolution, or his interpretation of natural right) can already be found in earlier writings. For a discussion see Henning Ottmann, 'Hegels Rechtsphilosophie und das Problem der Akkommodation. Zu Ilttings Hegelkritik und seiner Edition der Hegelschen Vorlesungen über Rechtsphilosophie', *Zeitschrift für philosophische Forschung* 33(2) (1979), 227–43.

<sup>77</sup> PR §34ff., 209ff.

<sup>78</sup> PR §185, §206, §236Z, §299, cf. also Hotho, 634. This will be taken up in chap. 4.3.2 of this volume.

<sup>79</sup> PR §270.

<sup>80</sup> PR §308, 319f.

<sup>81</sup> Cf. Neuhouser, *Foundations of Hegel's Social Theory*, 273ff., for a discussion.

<sup>82</sup> Hardimon, *Hegel's Social Philosophy*, 256, cf. similarly Patten, *Hegel's Idea of Freedom*, 166.

read among the German intelligentsia, and were 'recognized as a major intellectual force of the day'.<sup>83</sup> Hegel first encountered Scottish thinkers such as Ferguson and Hume during his studies in Tübingen. In his years in Berne and Frankfurt his interest in economic and social questions grew, and he naturally turned to British political economists.<sup>84</sup> As his biographer Karl Rosenkranz tells us, in 1799 Hegel read a German translation of Steuart's *Principles of Political Economy* and wrote a now lost commentary.<sup>85</sup> There is no evidence as to when exactly Hegel read Smith;<sup>86</sup> it probably happened no earlier than during the Jena years.<sup>87</sup> The first appearance of Smith in Hegel's writing is a discussion of a pin factory as an example for the division of labour, which appears in his Jena manuscripts, and then time and again in his lectures.<sup>88</sup> In the *Philosophy of Right* Hegel mentions 'Smith, Say, and Ricardo' as examples of political economists:

Political economy is the science which starts from this view of needs and labour but then has the task of explaining mass-relationships and mass-movements in their complexity and their qualitative and quantitative character. This is one of the sciences which have arisen out of the conditions of the modern world. Its development affords the interesting spectacle (as in Smith, Say, and Ricardo) of thought working upon the endless mass of details which confront it at the outset and extracting therefrom the simple principles of the thing, the Understanding effective in the thing and directing it.<sup>89</sup>

The search for general laws in the confusing and chaotic appearances of economic life is similar to astronomy, where the laws of the solar system are sought in the 'irregular movements' that the planets 'display to the eye'.<sup>90</sup> As we shall see, Hegel recognizes the achievements of political economy, without sharing all its assumptions.

Hegel's view of the market, however, needs to be seen in the larger context of his political philosophy. When one scrapes off the idealist language, one finds a similar tripartite scheme of the division of labour between the political and the economic realm as in Smith. But the fact that Hegel has a different picture of the market leads him to a different focus and to a different balance between these three dimensions.

<sup>83</sup> Waszek, *The Scottish Enlightenment and Hegel's Account of 'Civil Society'*, 82. On the translation of Scottish works and their reception in Germany see e.g. Keith Tribe, *Governing Economy: The Reformation of German Economic Discourse 1750–1840* (Cambridge: Cambridge University Press, 1988), chaps 6–8.

<sup>84</sup> Rosenkranz, *Georg Wilhelm Friedrich Hegels Leben*, 85.

<sup>85</sup> Rosenkranz, *Georg Wilhelm Friedrich Hegels Leben*, 86. According to Rosenkranz, for Hegel Steuart was 'still a mercantilist'. He remarks on Hegel's commentary that Hegel wanted to fight what was dead in mercantilism, and was concerned to save the 'Gemüth' of man under the conditions of contemporary ways of production (*Georg Wilhelm Friedrich Hegels Leben*, 86).

<sup>86</sup> Cf. Rosenkranz, *Georg Wilhelm Friedrich Hegels Leben*, 112.

<sup>87</sup> See e.g. Chamley, 'Les origines de la pensée économique de Hegel', 253.

<sup>88</sup> *Jenenser Realphilosophie I*, 248. For a discussion see Norbert Waszek, 'Miscellanea: Adam Smith and Hegel on the Pin Factory', *Owl of Minerva* 16 (1985), 229–33.

<sup>89</sup> PR §189. For Ricardo and Say there is no evidence that Hegel read them in the original; he may have read about them in newspapers or review journals (Waszek, *The Scottish Enlightenment and Hegel's Account of 'Civil Society'*, 116).

<sup>90</sup> PR §189Z.

Hegel discusses the market as part of 'civil society', which he characterizes as an association of members as self-subsistent individuals in a universality which, because of their self-subsistence, is only abstract. Their association is brought about by their needs, by the legal system—the means to security of person and property—and by an external organization for attaining their particular and common interests.<sup>91</sup>

For Hegel civil society includes the 'system of needs', the 'administration of justice', and the 'police and corporations'; it can thus be described as the market economy together with the institutions that make it possible and that grow out of it.<sup>92</sup> Civil society is the sphere in which the principle of 'particularity', although not being its only principle, plays a central role: 'Particularity' is here 'given free rein in every direction to satisfy its needs, accidental caprices, and subjective desires'.<sup>93</sup> As Hegel says, *Sittlichkeit* is here 'split into its extremes and lost',<sup>94</sup> as the relations between individuals are purely instrumental. Individuals relate to one another not as family members or fellow citizens, but simply as 'particular persons' or 'burghers' who meet each other in the 'attainment of selfish ends'.<sup>95</sup> Thus,

There is formed a system of complete interdependence, wherein the subsistence, welfare and legal status of one man is interwoven with the subsistence, welfare and rights of all.<sup>96</sup>

For human beings to meet as self-sufficient individuals, however, there needs to be a system of rights which grants each of them an independent status. Hegel discusses the rights of individuals in two places in the *Philosophy of Right*. In 'Abstract Right' he develops the theoretical principles of individual rights, in particular property rights. The 'basis of right' is the free will of human individuals.<sup>97</sup> A free human being needs to 'translate his freedom into an external sphere', which is why there have to be individual property rights.<sup>98</sup> But right is an abstract concept that must be realized concretely in the *Sittlichkeit* of modern society. Right must be known, and it must be valid,<sup>99</sup> or as Hegel puts it in the *Encyclopedia*, it must have 'publicity' and 'authority'.<sup>100</sup> It then becomes positive law,<sup>101</sup> and 'by taking the form of law, right steps into a determinate mode of being'.<sup>102</sup> The 'Administration of Justice' that secures property rights and settles legal conflicts is thus part of civil society.<sup>103</sup>

Within this framework of property rights, the market economy—or 'system of needs', as Hegel calls it<sup>104</sup>—has its place. Individuals are free to pursue their

<sup>91</sup> PR §157. It should be noted that Hegel's term is *not* identical with the contemporary usage in political philosophy, as understood e.g. in Jean L. Cohen and Andrew Arato, *Civil Society and Political Theory* (Cambridge, MA/London: MIT Press, 1994). On the development of the concept of 'civil society' in Hegel's intellectual development see Rolf-Peter Horstmann, 'Über die Rolle der bürgerlichen Gesellschaft in Hegels politischer Philosophie', in Manfred Riedel (ed.), *Materialien zu Hegels Rechtsphilosophie Band II* (Frankfurt am Main: Suhrkamp, 1975), 276–311.

<sup>92</sup> Cf. Patten, *Hegel's Idea of Freedom*, 175.

<sup>93</sup> PR §185.

<sup>94</sup> PR §184, cf. §189Z, §357, Hotho, 566, Griesheim, 415.

<sup>95</sup> PR §183, §187. <sup>96</sup> PR §183, translation changed.

<sup>97</sup> PR §4, §36.

<sup>98</sup> PR §41, §40. Cf. Ritter, 'Person and Property', for a discussion.

<sup>99</sup> PR §210.

<sup>100</sup> Enc §529.

<sup>101</sup> PR §211.

<sup>102</sup> PR §219.

<sup>103</sup> PR §209ff.

<sup>104</sup> PR §189ff.



interests, whether they are based on 'caprice' or 'physical necessity' or a 'mixture' of both.<sup>105</sup> In contrast to the biological needs of animals, human needs are not naturally limited; rather, they are influenced by social factors like fashion and the wish to occupy a certain social position.<sup>106</sup>

This pursuit of self-interest leads to a situation that looks chaotic and disorganized at first glance, an 'apparently scattered and thoughtless sphere'.<sup>107</sup> But Hegel also emphasizes that there is a 'necessary element', a 'show [Scheinen] of rationality' in it.<sup>108</sup> It is here that he takes up insights from 'political economy': he sees something like the Smithian 'invisible hand' in the economic sphere. Through the market mechanism, 'subjective self-seeking turns into a contribution to the satisfaction of the needs of everyone else'.<sup>109</sup> Hegel calls this a 'dialectical advance', rather than an 'invisible hand', but the similarities with Smith are striking.<sup>110</sup> The result is that 'each man in earning, producing, and enjoying on his own account is *eo ipso* producing and earning for the enjoyment of everyone else'.<sup>111</sup> The modern economy is characterized by a highly developed division of labour,<sup>112</sup> which 'makes necessary everywhere the dependence of men on one another and their reciprocal relation in the satisfaction of their other needs'.<sup>113</sup> On the macro-level, a certain order thus becomes visible in the economic realm—there is 'universality' in addition to 'particularity'.

Nevertheless, Hegel's market is not the peaceful, self-adjusting mechanism that Smith had described. If one zooms in from the macroeconomic to the microeconomic level, as it were, one realizes that the market is a battlefield of everyone against everyone else—and hence the 'relict of the state of nature'<sup>114</sup>—and of each against the common interests of the community:

Just as civil society is the battlefield where everyone's individual private interest meets everyone else's, so here we have the struggle (a) of private interests against particular matters of common concern and (b) of both of these together against the organization of the state and its higher outlook.<sup>115</sup>

For Hegel markets are inherently unstable and unpredictable. Human needs in their 'particularity' lead to an endless pursuit of commodities, and as preferences are arbitrary and shifting,<sup>116</sup> market outcomes are inherently unknowable. The sway of ever-changing fashions and caprices brings insecurity to those who produce such goods. This insecurity results from 'the variability of the wants themselves', from 'circumstances of locality', 'errors and deceptions', and the

<sup>105</sup> PR §182. <sup>106</sup> Cf. PR §190. See also chap. 4.2 of this volume.

<sup>107</sup> PR §189Z.

<sup>108</sup> PR §189 and Z. <sup>109</sup> PR §199.

<sup>110</sup> Cf. e.g. Henderson and Davis, 'Adam Smith's Influence on Hegel's Philosophical Writings'; Shlomo Avineri, *Hegel's Theory of the Modern State* (Cambridge: Cambridge University Press, 1972), 146f.; Peter G. Stillman, 'Hegel's Civil Society: A Locus of Freedom', *Polity* XII(4) (1980), 622–46 for discussions.

<sup>111</sup> PR §199, cf. Hotho, 581, 614f., where this is called a 'wonderful entanglement and mediation' (615).

<sup>112</sup> PR §191, 196, Enc §525. Cf. Waszek, *The Scottish Enlightenment and Hegel's Account of 'Civil Society'*, chap. VI, for a discussion of the similarities between Smith's and Hegel's accounts of the division of labour.

<sup>113</sup> PR §198, Griesheim, 486, 504, Hotho, 568, 587f., cf. Henderson and Davis, 'Adam Smith's Influence on Hegel's Philosophical Writings', 189.

<sup>114</sup> PR §200. <sup>115</sup> PR §289, cf. also Griesheim, 495.

<sup>116</sup> Enc §533.

'unequal capacity of individuals' to find a place where they can take part in the production process and acquire a share of the produced wealth.<sup>117</sup> For example, changes in fashion can let 'entire branches of industry' go bankrupt, and thus throw a 'huge population . . . into helpless poverty'.<sup>118</sup> Through the international division of labour, men's fates depend on factors they cannot control; they are exposed to 'blind dependence' and a forceful dynamic that can overthrow their lives.<sup>119</sup> In the Jena manuscripts, Hegel calls the exchange economy

A monstrous system of community and mutual interdependence in a great people; a life of a dead body, that moves itself within itself, one which ebbs and flows in its motion blindly, like the elements, and which requires continual strict dominance and taming like a wild beast.<sup>120</sup>

In the *Philosophy of Right*, the formulations are less drastic, but the diagnosis is essentially the same: with individuals' interests given free rein, 'accidental caprices and subjective desires' put people at risk, and make the satisfaction of their needs a matter of luck.<sup>121</sup> This turns civil society into 'a spectacle of extravagance and misery' and can lead to 'the physical and ethical degeneration common to them both'.<sup>122</sup>

The greatest problem of the Hegelian market economy is that those who fall into unemployment cannot free themselves from it any more. They become a 'rabble', whose mentality is in uproar against society.<sup>123</sup> While Hegel thus adopts the idea that in the market people unintentionally serve one another's interests, he denies that *everyone's* interests will be served: the poor are unable to 'enjoy the broader freedoms and especially the intellectual benefits of civil society'.<sup>124</sup> Even those who remain in employment may find that the unpredictable fluctuations of the free market make it difficult for them to plan their lives rationally.<sup>125</sup>

For Hegel, the economic sphere is not as harmonious as it is for Smith; it is much closer to Steuart's metaphor of a watch that is 'continually going wrong'.<sup>126</sup> But even this characterization seems too positive for the Dionysian, chaotic process that Hegel describes, which is 'teeming with caprice', as he formulates in one lecture,<sup>127</sup> and where 'all waves of fortune and misfortune and of all passions pour out', as he says in another.<sup>128</sup> His discussion of the labour market,

<sup>117</sup> Enc §533. <sup>118</sup> *Jenenser Realphilosophie II*, 139f.

<sup>119</sup> *Jenenser Realphilosophie I*, 248, cf. Norbert Waszek, 'The Division of Labor: From the Scottish Enlightenment to Hegel', *Owl of Minerva* 15 (1983), 51–75, 66f.

<sup>120</sup> *Jenenser Realphilosophie I*, 249.

<sup>121</sup> PR §185 translation changed.

<sup>122</sup> PR §185.

<sup>123</sup> PR §240ff.

<sup>124</sup> PR §243, cf. also Avineri, *Hegel's Theory of the Modern State*, 148. Axel Honneth's recent account (*Das Recht der Freiheit. Grundriß einer demokratischen Sittlichkeit* (Berlin: Suhrkamp, 2011), 317ff.) does not do justice to the fact that insofar as there is a congruence of interests in the market, it happens *unintentionally*—I buy bread from the baker not because I want to further his freedom, but because it serves my interest, and, incidentally, his. Honneth's account of the market is much more harmonious and 'embedded' than Hegel's.

<sup>125</sup> Cf. in particular Schmidt am Busch, *Hegels Begriff der Arbeit*, 78ff.

<sup>126</sup> Sir James Steuart, *An Inquiry into the Principles of Political Economy* (1767), edited by Andrew S. Skinner (Edinburgh/London: Oliver & Boyd, 1966), 217.

<sup>127</sup> Griesheim, 487.

<sup>128</sup> Hotho, 567.

and in particular of the inability to create enough work for everyone,<sup>129</sup> implies that the market economy is *not* endlessly growing, but that it comes to an upper limit, which exacerbates the struggles for everything that can be gained within these limits.

The news of mass pauperization, in particular in London,<sup>130</sup> which Hegel gathered from newspapers and magazines from England, certainly played an important role in shaping his views.<sup>131</sup> He might also have been influenced by the first criticisms of the early optimism of 'political economy', which were raised by writers like Jean Charles Léonard de Sismondi and Thomas Malthus.<sup>132</sup> In any case, when Hegel took over the idea that self-interest can serve the public good, he did not rely on Smith's (or other writers') arguments about how exactly the market could be self-adjusting. There is no hint in the *Philosophy of Right* or the lectures that Hegel adopted the idea of the market price 'gravitating' towards an adjustment of supply and demand through the adaptive behaviour of individuals.<sup>133</sup> In particular, as we shall see in more detail in chapter 5, he does not have a detailed theory about how the wealth created by a free market economy will reach all members of society, and thinks that the poor will often *not* be able to free themselves from their misery. The Smithian vision that economic growth would expand the cake for all is absent from Hegel's view of the modern economy.<sup>134</sup> He also lacks any discussion of the role of capital accumulation for economic growth.<sup>135</sup>

Given how problematic the market is for Hegel, it is not surprising that he puts a stronger focus than Smith on the institutions that limit and correct market outcomes, introducing additional elements of 'universality' into the sphere of civil society. In the initial description of civil society Hegel speaks of 'an external

<sup>129</sup> PR §242ff., cf. also chap. 5.3 of this volume.

<sup>130</sup> Cf. Griesheim, 494: 'in this endlessly rich city, misery, destitution and poverty are so dreadful that we can hardly imagine it'. Cf. also Hotho, 599.

<sup>131</sup> Cf. Rosenkranz, *Georg Wilhelm Friedrich Hegels Leben*, 59f., 85. On Hegel's reading of English newspapers and journals see also M. J. Petry, 'Propaganda and Analysis: The Background to Hegel's Article on the English Reform Bill', in Z. A. Pelczynski (ed.), *The State and Civil Society: Studies in Hegel's Political Philosophy* (Cambridge: Cambridge University Press, 1984), 137–58. As Petry argues, one of Hegel's most important sources was the *Morning Chronicle*, which was edited by members of the Utilitarian movement. It tended to present developments in a way that 'contributed to the creation of a general impression of imminent revolution' (153) in order to press for reforms. Thus, Hegel might have received a rather dramatic impression of the situation in England.

<sup>132</sup> Douglas Moggach argues, for example, that Hegel might have been influenced by Sismondi's views on the need to regulate the market ('Introduction: Hegelianism, Republicanism, and Modernity', in Douglas Moggach (ed.), *The New Hegelians: Politics and Philosophy in the Hegelian School* (Cambridge: Cambridge University Press, 2006), 1–23, 19). Priddat (*Hegel als Ökonom*, 68ff.) speculates that Hegel might have picked up Malthus's arguments about recurring crises of overpopulation. There is, however, no direct evidence for either of these influences.

<sup>133</sup> In the Griesheim lectures (597) he notes that in England all taxation of groceries is abolished and the setting of prices is left to 'the bakers, brewers, etc.'—evidently an allusion to Smith's famous quote—in the hope that competition will on average lead to a low price. Hegel is sceptical about this; he argues that as it is costly and complicated to examine the quality of groceries, market surveillance is needed.

<sup>134</sup> Cf. Priddat, *Hegel als Ökonom*, 52. Priddat thus rightly denies the adequacy of Marx's statement that Hegel fully mastered the economic theory of his time, emphasizing the influence of German (rather than British) economic thought with which Hegel was more familiar (*Hegel als Ökonom*, 9ff.).

<sup>135</sup> Cf. Priddat, *Hegel als Ökonom*, 26, 152.

organization for attaining [the citizens'] particular and common interests',<sup>136</sup> and as becomes clear in the subsequent discussion, the elements of this external organization—in addition to the administration of justice that has already been mentioned—are the police and the corporations.

Hegel describes the 'police' as a public authority in the market sphere: 'the universal [the concern for the public good] which acts with regard to civil society'.<sup>137</sup> As such, it has two essential functions: first, to remove 'accidental hindrances to one aim or another' and to attain 'undisturbed safety of person and property', and, second, to realize the right of 'every single person' to 'livelihood and welfare', that is, to fight dire poverty.<sup>138</sup> The measures through which these aims are achieved comprise market surveillance through 'contrivances and organizations' which have the 'general utility' in view,<sup>139</sup> the arbitration of disputes caused by the 'differing interests of producers and consumers', the oversight of 'the larger branches of industries' that are especially vulnerable to 'conditions abroad', and, in extraordinary circumstances, the fixing of prices for 'the commonest necessities of life'.<sup>140</sup>

The 'corporations', the professional associations of those who work in the same branch of industry, are the second instrument for overcoming the 'particularity' of civil society.<sup>141</sup> They offer a place where individuals with their capabilities and skills are recognized, and every person can 'command the respect due to one in his social position'.<sup>142</sup> The corporations are a 'second family' in civil society, the 'son' of which the individual has become.<sup>143</sup> If the members of a corporation fall into distress, they are supported by the richer members without the 'accidental character and the humiliation' that private charity has outside of this social context; the corporations thus provide a social insurance.<sup>144</sup> Hegel notes, however, that they need to stand under the 'surveillance of the public authority', otherwise they might 'ossify, build themselves in, and decline into a miserable system of guilds [Zunftwesen]'.<sup>145</sup>

The Hegelian labour market is thus rather strictly regulated through the system of corporations. It is not quite clear, however, how these structures can co-exist with economic freedom in other parts of the economy. As Schmidt am Busch argues, Hegel wants to organize *production* along the principles of the corporations, so that the free market can only reign in the sphere of *circulation*, in Marx's terms.<sup>146</sup> The question is, however, whether such a mixed system is viable. It could

<sup>136</sup> PR §157.

<sup>137</sup> Hotho, 587.

<sup>138</sup> PR §230.

<sup>139</sup> PR §235.

<sup>140</sup> PR §236, cf. Raymond Plant, 'Economic and Social Integration in Hegel's Political Philosophy', in Donald Phillip Verene (ed.), *Hegel's Social and Political Thought* (New Jersey: Humanities Press, 1980), 59–90, 78, for a discussion.

<sup>141</sup> PR §250, cf. Griesheim, 588ff., Hotho, 709ff. Schmidt am Busch ('*Anerkennung*' als Prinzip der *kritischen Theorie*, 233f.) is right to point out that Hegel does not seem to have in mind any concrete historical institution; he uses different terms, including the term for a local (rather than professional) community, 'Gemeinde', which can also signify 'parish'.

<sup>142</sup> PR §253, for a discussion see e.g. Michael Wolff, 'Hegel's Organicist Theory of the State: On the Concept and Method of Hegel's "Science of the State"', in Robert Pippin and Otfried Höffe (eds.), *Hegel on Ethics and Politics* (Cambridge: Cambridge University Press, 2004), 291–322.

<sup>143</sup> PR §238, §252.

<sup>144</sup> PR §253, cf. Schmidt am Busch, *Hegels Begriff der Arbeit*, 148f.

<sup>145</sup> PR §255Z, translation changed.

<sup>146</sup> Schmidt am Busch, *Hegels Begriff der Arbeit*, 139ff.

either mean that goods and services are produced *only* by the corporations—but then the question is whether this would still be a free market economy. Or it could mean that there can also be other economic agents—then the market is really free, but it is an open question whether the corporations can compete with these other agents.<sup>147</sup> It seems that Hegel does not *really* want to leave the economy free, in a way that builds on economic growth through the accumulation of capital. His focus is more on the distribution of work and of the necessities of life, and on questions like the 'honour' of individuals in the corporations; he does *not* build on labour as a mobile factor.<sup>148</sup> As we shall see, this plays an important role in how his understanding of the market relates to questions of identity and justice.

Hegel makes clear that the institutions that check the market, the police and corporations as well as the administration of justice, are not part of the state proper, but only of a state of a special kind:

This system may be *prima facie* regarded as the external state, the state based on need, the state as the Understanding envisages it.<sup>149</sup>

For Hegel the institutions that make possible a smoother functioning of the market—which are all *coercive* functions<sup>150</sup>—are insufficient to keep a society together and to embed the market in a social whole. For this, the real state is necessary, the 'actuality of the ethical Idea'.<sup>151</sup> It is the place where 'freedom comes into its supreme right';<sup>152</sup> as such it is more than a contractual unity that would be based on the individuals' private interests.<sup>153</sup> Hegel is here a good Aristotelian: it is a *telos* of human beings to live (also) a political life, and to be part of a community with a common understanding of good and evil, the just and the unjust.<sup>154</sup>

The Hegelian idea of the state has been subjected to much ridicule and scorn, but the central idea is a very simple one: there needs to be a level of social unity that goes *beyond* the instrumental ties of the economics sphere and the institutions that stabilize it by force. In chapter 6, I will discuss a reconstruction of Hegel's notion of the state that illustrates the importance of this insight for contemporary political theory. Even if the Hegelian state may, in the end, depend on some metaphysical underpinning, we can gain from his discussions crucial insights about the necessity of political forces that balance the dynamics of the economic realm.

In any case, Hegel's account is quite understandable given his view of the market, which presents us with a chaotic, Dionysian play of forces that lead some people to immense riches, while casting others into desperate poverty. It

<sup>147</sup> Schmidt am Busch, *Hegels Begriff der Arbeit*, 150ff.

<sup>148</sup> Cf. also Priddat, *Hegel als Ökonom*, 189ff.

<sup>149</sup> PR §183.

<sup>150</sup> Cf. Alan W. Wood, 'Hegel's Ethics', in Frederick C. Beiser (ed.), *The Cambridge Companion to Hegel* (New York: Cambridge University Press, 1993), 211–33, 230f.

<sup>151</sup> PR §257.

<sup>152</sup> PR §258, cf. chap. 6.4 of this volume.

<sup>153</sup> PR §75Z, §100Z, §183, §258, §281, cf. Enc §523. For a discussion of Hegel's criticism of contract theory see e.g. Patten, *Hegel's Idea of Freedom*, chap. IV.

<sup>154</sup> Aristotle, *The Politics*, edited by Stephen Everson (Cambridge: Cambridge University Press, 1988), 1253a; cf. e.g. Ritter, *Hegel and the French Revolution*, 48f.

subjects everyone to the insecurity and unpredictability of an economy in which everything is connected with everything; and hardly anyone can oversee, let alone control, this swirl of phenomena. For Hegel the political unity of the state is a counter-force to this centrifugal economy, which amends many of the problems the economy creates, although it remains open whether it can amend them all.

### 3.5 CONCLUSION: THE MODERNITY OF THE MARKET

Given all the problems of the free market that Hegel analyses why does he endorse it at all? Why does he not argue for the return to a pre-modern, more embedded form of economic life?

Hegel is in fact in favour of a much stronger regulation of the market than Smith. Birger Priddat argues that at its heart the Hegelian economy is an 'exchange economy based on the division of labour, an Aristotelian model transformed by German cameralism'.<sup>155</sup> But although Hegel lacks a discussion of what one would later call macroeconomic phenomena, as Priddat rightly points out, and although he is in favour of a strong control of the labour market through the corporations, he is *against* a complete regulation of economic activities and a suppression of the internal dynamics of the market sphere.

Unlike Smith, Hegel cannot—and indeed never attempts to—argue for the market from its beneficial consequences.<sup>156</sup> History, for Hegel, is not the 'progress of opulence', but the 'progress of the consciousness of Freedom';<sup>157</sup> and this is also the light in which he sees the market. He endorses it for the sake of the realization of subjective freedom, the form of freedom specific to modern societies. It provides individuals with a sphere in which they can act as they like: as separate individuals, unbound by rules and regulations, but also by social expectations and pressures.<sup>158</sup> This is possible because individuals are given property rights and economic liberties. As a consequence, they can enter into contractual relationships with others, and thus a market develops. This exchange economy may lead to economic growth, but this point is not central to Hegel; which makes sense given his assumption that despite its higher productivity, the market does *not*, as does the Smithian market, improve the situation of *everyone*. What really matters is that the economic sphere offers a realm in which the 'particularity' of individuals, their different needs, wishes, and desires can develop, and in which different ways of life can be chosen, through the choice of consumption and profession. This is a specific feature of *modern* societies:

<sup>155</sup> Priddat, *Hegel als Ökonom*, 27, own translation.

<sup>156</sup> The only way in which Hegel could stitch together an argument from outcome would be to argue that as a result of the redistributive measures undertaken by the police and the corporations the poor are still better off than they would be in feudalism or in any other economic order. But his reflections on poverty as having to do not so much with the absolute level of income as with social recognition and the *kind* of income one receives would make this difficult for him (cf. also chap. 5.3 of this volume).

<sup>157</sup> PH (Sibree) 19, cf. also 63.

<sup>158</sup> Cf. in particular Ritter, *Hegel and the French Revolution*. As he argues, the Reformation, the rise of capitalism, and the French Revolution are for Hegel three key developments of modernity.

The right of the subject's particularity, his right to be satisfied, or in other words the right of subjective freedom, is the pivot and centre of the difference between antiquity and modern times. This right in its infinity is given expression in Christianity and it has become the universal effective principle of a new form of civilization.<sup>159</sup>

The modern economy is one of the forms in which this subjective freedom finds expression: here people are liberated from the subordination under feudal lords and, more generally, the power of tradition. Hegel accordingly calls 'political economy' 'one of the sciences which have arisen out of the conditions of the modern world'.<sup>160</sup> From the perspective of the *ancient* states, notably the Greek polis, the principle of subjective freedom appeared as 'corruption', as something 'hostile' to the social whole.<sup>161</sup> Rather than naively yearning for a return to the Greek polis, the mature Hegel rejects the polis because of its indifference to the individual.<sup>162</sup> Only the *modern* state has the strength to admit this principle, and to give it a place in which it does not threaten the social whole.<sup>163</sup>

As we shall see in the following chapters, given Hegel's characterization of the market and its different deficiencies and weaknesses, it is indeed plausible that a political sphere of the kind he envisages is needed. The question is, of course, how successful this mediation is—whether Hegel can have his cake and eat it. Hegel in a way tries to 'sublate' both Smith *and* Steuart,<sup>164</sup> the free market *and* its control through social and political institutions. The market is cherished for the individual freedom it brings, but it needs to be limited and controlled by the state, otherwise it will blow up the society in which it exists. Whether this can work is an open question, in particular with regard to the problem of poverty, as will be discussed in detail later.<sup>165</sup> But it should already have become clear that the free market for Hegel is not a problem-solver, as it is in Smith, but a sphere that *creates* problems—and yet at the same time it must be part of a free modern society. It is, for him, a challenge that every political philosophy that claims to deal with *modern* society has to accept.

With Hegel, we thus have a second model of how the market and its place in society can be conceptualized. Hegel is not just the thinker of 'the political state', and much less the thinker of the 'authoritarian' state. The *Philosophy of Right* provides deep and extended reflections about how the different spheres of a liberal society hang together. In this sense, its systematic level is the same as Smith's different books—the *Theory*, the *Wealth* and the *Lectures on Jurisprudence*—taken together.<sup>166</sup> This is what makes the comparison of Smith and Hegel so suitable for reflecting about the relation of the market to other spheres, principles, and values. This task will be undertaken in the following chapters.

<sup>159</sup> PR §124, cf. also PR §62, §185, Enc §552.

<sup>160</sup> PR §189.

<sup>161</sup> Cf. PR §185, §206, cf. Hotho, 577.

<sup>162</sup> Cf. Avineri, *Hegel's Theory of the Modern State*, 92.

<sup>163</sup> Cf. PR §260.

<sup>164</sup> The 'sublation' of Steuart has been suggested by Chamley ('Les origines de la pensée économique de Hegel', 255), that of Smith by Avineri (*Hegel's Theory of the Modern State*, 147). See also Waszek (*The Scottish Enlightenment and Hegel's Account of 'Civil Society'*, 186f.) on Hegel's relation to Steuart and Smith.

<sup>165</sup> See chap. 5.3 of this volume.

<sup>166</sup> Cf. also Jerry Muller, *The Mind and the Market. Capitalism in Western Thought* (New York: Anchor Books, 2002), 140.

## The Self in the Market: Identity and Community

### 4.1 INTRODUCTION

In the political theory of the last decades the old question about the relation between individual and society has re-emerged: it has been one of the bones of contention in the so-called 'liberal-communitarian' debate. Michael Sandel, in his criticism of Rawls' and other theorists' 'procedural' liberalism, has coined the term 'unencumbered self': a self that has no 'constitutive goals', that is prior to and separate from all commitments, relations, and desires, freely choosing between them.<sup>1</sup> Sandel takes this to be an unrealistic and even dangerous basis for political theories and instead suggests a view of human beings as shaped by social ties in constitutive ways.

This debate concerns the very foundations of liberal political theory, and numerous attempts have been made to mediate between Rawls' and Sandel's positions.<sup>2</sup> Nevertheless, the question about the social embeddedness of the modern self remains relevant, both for real-life issues and for political theory. In discussions of the topic, one often finds an implicit or explicit suspicion that the 'unencumberedness' of the modern self and the decrease of social cohesion have something to do with economic forces and the power of an ever more dominating market. This chapter addresses this worry, discussing the relation between individual and society, and the question of social embeddedness, with regard to the different views of the market in Smith and Hegel.

At first glance, it seems that Smith and Hegel represent prototypical cases of the most extreme positions in this debate. Smith, as the 'father' of economics, is often seen as having invented 'economic man', the paradigm of an 'atomistic' self free from any commitment, choosing strategically between different options. Hegel, the thinker of *Geist*, is taken to have what Christopher Berry calls a 'contextualist' view of the individual: an understanding of humans as deeply embedded in the

<sup>1</sup> Michael Sandel, 'The Procedural Republic and the Unencumbered Self', *Political Theory* 12(1) (1984), 81–96. I use Sandel as example for this type of criticism; similar arguments have been brought forward much earlier by Marxist thinkers; for example, Max Horkheimer argued that in liberal society the predominant moral type is the 'monad' from Leibniz's metaphysics (*Zur Kritik der instrumentellen Vernunft und Notizen 1949–1969* (Frankfurt am Main: Fischer, 1991), 145).

<sup>2</sup> Cf. e.g. Charles Taylor, 'Cross purposes: The Liberal-Communitarian debate', in Nancy Rosenblum (ed.), *Liberalism and the Moral Life* (Cambridge, MA: Harvard University Press, 1989), 159–82.



language and culture of their time, related to the social whole in an organic way that does not even allow for a complete conceptual separation between human nature and society.<sup>3</sup> With his focus on the family, the corporations, and the state, Hegel is often taken to be a proto-communitarian thinker.<sup>4</sup>

This chapter challenges this understanding. As I will show, Smith and Hegel both have a view of the self as shaped by interaction with others *and* conceptualize social spheres in which individuals act in more or less 'atomistic' ways. But there is a kernel of truth in the clichés, which becomes clear when one asks how interactions in the *market* influence individuals' identities and their relations to society. In market societies, people need to enter into exchange relationships with others. They have to offer goods, money, and their labour, which means, in a sense, that they have to sell themselves. The question thus is how this process of selling oneself influences people's identity and their relation to society. As we shall see, Smith and Hegel differ in how they conceptualize the relation between the self and what it offers in the labour market. While Smith develops a theory of 'human capital' *avant la lettre*, for Hegel their professional activity educates and forms individuals in a much deeper way, influencing their identity and the recognition they receive from others. Interestingly, these two models fit quite neatly with different 'varieties of capitalism' as they have been explored in economic sociology. Taking into account these complexities has a number of implications for the way in which the relation between individual and society is conceptualized, which will be discussed in the conclusion of this chapter. As this will show, one has to distinguish not only different *degrees*, but also different *kinds* of embeddedness. Recognizing these different dimensions of embeddedness is crucial for thinking more constructively about the otherwise relatively sterile debate of individualism versus communitarianism in contemporary political theory.

#### 4.2 THE SOCIAL SELF

In the history of philosophy the contrast between a social and an atomistic conception of human nature can be illustrated by the positions of Aristotle on the one hand, and Hobbes or the early Rousseau on the other. For Aristotle, only beasts or gods can live without a community; men need to be 'part of a city'.<sup>5</sup> In contrast, for the Rousseau of the *Second Discourse*, strongly influenced by Hobbes, the ideal of human nature is presented in the image of the lonely savage of an early state of nature. There, man was healthier, more innocent, blessed with a 'celestial and majestic simplicity',<sup>6</sup> whereas '[a]s he becomes sociable and a slave, he

<sup>3</sup> Christopher Berry, *Hume, Hegel, and Human Nature* (The Hague: M. Nijhoff, 1982), especially 25, 36, 148. Berry emphasizes the importance of Herder and of romanticism more generally for these organic models (31ff.).

<sup>4</sup> Or at least as a *political* communitarian who adopts a purely *economic* liberalism, see e.g. Mark R. Greer, 'Individuality and the Economic Order in Hegel's Philosophy of Right', *The European Journal of the History of Economic Thought* 6(4) (1999), 552–80.

<sup>5</sup> Aristotle, *The Politics*, 1253a27.

<sup>6</sup> Jean-Jacques Rousseau, *The Discourses and Other Early Political Writings*, edited by Victor Gourevitch (Cambridge: Cambridge University Press, 1997), 124.

becomes weak, timorous, grovelling, and his soft and effeminate way of life completes the enervation of both his strength and his courage'.<sup>7</sup>

Smith and Hegel firmly take Aristotle's side in this dispute: men *qua* men cannot exist without society. This is true not only from a pragmatic point of view, since human beings need to cooperate with others to live safely and to acquire the necessities of life, but also in an ontological sense: individuals could not realize what is essential about human nature without society.

This may come as a surprise in the case of Smith. Economists and economically inclined philosophers often work with 'Robinsonades', the scenario of what the lonely Robinson Crusoe—by definition an 'atomistic' self—would do on his island, which is then presented as the ideal of human rationality.<sup>8</sup> But it would be wrong to ascribe this view to Smith. To be human for Smith means to share other people's feelings through sympathy, the 'fellow-feeling with any passion whatever'<sup>9</sup> that is pleasurable both for the sympathizer and the one sympathized with.<sup>10</sup> Men stand in numerous relations of differing kinds and intensity with each other. The very first sentence of the *Theory* makes clear that human beings are genuinely interested in others:

How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.<sup>11</sup>

It is only by help of these relations and the mirroring of one's own emotions in others that human beings can develop self-consciousness and self-command, the preconditions for human action. For Smith isolated human beings could not develop self-consciousness, as they would always direct their consciousness to external 'object[s] of [their] passions'. It is only through the 'looking-glass'<sup>12</sup> of other people, and *their* view of them, that they can turn their view back on themselves, and develop an attitude towards their own passions.<sup>13</sup> Individuals can learn to divide themselves 'as it were, into two persons'<sup>14</sup> in order to reflect on their own behaviour only in society. The gaze of others is 'internalized' in the self<sup>15</sup> both on the fundamental, formal level of *being able at all* to relate to oneself in a critical way, and on the level of the *contents* of consciousness, insofar as they are influenced by the views of others.<sup>16</sup>

In addition to self-consciousness, human action requires self-command, which, for Smith, can also be acquired only in society. Among their peers, children learn

<sup>7</sup> Rousseau, *The Discourses and Other Early Political Writings*, 138f.

<sup>8</sup> See e.g. Gauthier, *Morals By Agreement*, 90ff.

<sup>9</sup> TMS I.I.1.5. Sympathy is based on the ability of 'changing places in fancy' with others (I.I.1.3); this has been associated with the 'mirror-neurons' that have been discovered by contemporary neuroscientists (cf. e.g. Robert Urquhart, 'Adam Smith's Problems: Individuality and the Paradox of Sympathy', in Vivienne Brown and Samuel Fleischacker (eds.), *The Philosophy of Adam Smith. The Adam Smith Review, 5: Essays Commemorating the 250th Anniversary of The Theory of Moral Sentiments* (London/New York: Routledge, 2010), 181–97, 184).

<sup>10</sup> Cf. e.g. TMS I.I.1.2.

<sup>11</sup> TMS I.I.1.1. Cf. also his rejection of the idea that sympathy might be conceived of as purely self-interested (VII.II.1.4), his criticisms of Hobbes (VII.III.1.2ff.), and his critical discussion of Mandeville (VII.II.4.1ff.).

<sup>12</sup> TMS III.I.5.

<sup>13</sup> TMS III.I.3.

<sup>14</sup> TMS III.I.6.

<sup>15</sup> Griswold, *Adam Smith and the Virtues of Enlightenment*, 107.

<sup>16</sup> TMS III.I.3.

that they have to control their passions in order to be accepted by others. In this 'great school of self-command' the child learns to 'moderat[e], not only its angers, but all its other passions' and to be 'more and more master of itself'.<sup>17</sup> Such self-command is a precondition for living in a community and acting responsibly in it. But the community also teaches human beings to control their instincts and emotions.<sup>18</sup> Although Smith also describes cases in which agents are sympathized with without even noticing it, in many cases the agent has to contribute to making sympathy possible through self-control. Because the sentiments of the sympathetic observer are never as strong as those of the person originally concerned,<sup>19</sup> an agent who feels a strong passion and wants to be sympathized with has to moderate it:

He can only hope to obtain [sympathy] by lowering his passion to that pitch, in which the spectators are capable of going along with him. He must flatten, if I may be allowed to say so, the sharpness of its natural tone, in order to reduce it to harmony and concord with the emotions of those who are about him.<sup>20</sup>

Smiths speaks of the 'harmony'<sup>21</sup> of sentiments in society, which makes clear that what is needed is not complete consonance, but a joining into the sentiments of the whole. Thus in order to be a human individual in the full sense, acting responsibly and living in a human community, self-consciousness and self-control have to concur: by *sympathy* one assumes the standpoint of others, *self-consciously* toning down one's emotions to the level they can share through *self-control*.<sup>22</sup>

Education is needed to enable children to become full-grown human beings in this sense; it is a topic of high importance for Smith, who did not have children himself, but was active as a teacher and educator during much of his life.<sup>23</sup> He emphasizes that to 'bring down [one's] passion and [to] curb [one's] desires to such a pitch as [others] can go along with' is 'a chief and most essential part of education', and praises the fact that children depend on their parents for so long, which makes it likely that they will acquire this ability.<sup>24</sup> It is telling that he considers public education worthy of government intervention and public funding, in particular in order to counteract the negative effects of the division

<sup>17</sup> TMS III.III.22. Paganelli has pointed out that self-interest ('regard even to its own safety') also plays a role in this process ('The Adam Smith Problem in Reverse', 369); for Smith, however, the motive of gaining the others' favour seems to be the stronger one, safety being only an afterthought.

<sup>18</sup> TMS I.I.4.7.

<sup>19</sup> TMS I.I.1.2.

<sup>20</sup> TMS I.I.4.7.

<sup>21</sup> TMS I.I.4.7.

<sup>22</sup> The socializing function of this sympathy-based process is emphasized in particular by Forman-Barzilai, *Adam Smith and the Circles of Sympathy*, chap. III and IV, who uses Foucault's concepts of 'surveillance' and 'discipline' to describe it (76ff.). What is misleading about this comparison, however, is that in Foucault's description of the panoptic the surveillance is not mutual, and is exercised with an explicit wish to control the other, whereas in Smith's description the surveillance is in most cases mutual and *all* individuals have power over others insofar as they can withdraw their sympathy.

<sup>23</sup> As a professor, he taught students from the age of fourteen (see Ross, *The Life of Adam Smith*, chaps VIII–X); he was a travelling tutor to the teenage Duke of Buccleuch (Ross, *The Life of Adam Smith*, chaps XIII), and later in life cared for the son of a cousin, David Douglas (Ross, *The Life of Adam Smith*, 311).

<sup>24</sup> LJ(A) 142f. On moral education see also chap. 6.3 of this volume.

of labour on the workers' minds.<sup>25</sup> This is important not only for political reasons—because an 'instructed and intelligent' population is 'always more decent and orderly'<sup>26</sup>—but also because their happiness is at stake and the workers might otherwise lose the ability to share 'any generous, noble, or tender sentiment'.<sup>27</sup>

A defender of 'Robinsonades' might reply, however, that this does not constitute an objection to his model: the individuals described here are children, after all. Once they are adults, he might say, they have indeed become independent and autonomous, and can reason and act as 'atomistic' selves. This, however, is not Smith's view; for him the sympathy-based connections between individuals remain an important force during all of their adult lives. As already mentioned, Smith describes human sympathy and benevolence as spread out in concentric circles of declining strength to those around oneself: one's family, friends, neighbours, and acquaintances. Individuals remain embedded in these 'circles of sympathy' for all their lives. Smith in fact holds that a person who would never be believed by others—one very basic form of social interaction—would 'feel himself the outcast of human society, would dread the very thought of going into it, or of presenting himself before it, and could scarce fail, I think, to die of despair'.<sup>28</sup>

The circles of sympathy also play an important role for moral reflection. As Smith states, the 'man within the breast, the abstract and ideal spectator of our sentiments and conduct' often has to be 'awakened and put in mind of his duty, by the presence of the real spectator'.<sup>29</sup> He takes it as a matter of fact that human beings live in communities in which this 'awakening' can take place. The only reference to another form of life and the dangers he associates with it can be found in a remark about the anonymity of the 'great cities', where poor labourers are 'sunk in obscurity and darkness', and thus do not have a 'character to lose', as they had in their 'country village'.<sup>30</sup> This is a risk for even the most basic standards of morality: such a worker is 'very likely to neglect himself, and to abandon himself to every sort of low profligacy and vice'.<sup>31</sup> It is, however, a dangerous anomaly; normally individuals are 'embedded' in social structures in their private lives. Smith does not *exclude* the possibility of a society without benevolence, based merely on justice, 'as among different merchants, from a sense of its utility, without any mutual love or affection', built on 'mercenary exchange of good offices according to an agreed valuation'.<sup>32</sup> But this is not the normal case: he contrasts it with a society in which people also grant one another assistance 'from love, from gratitude, from friendship, and esteem'; this society 'flourishes and is happy'.<sup>33</sup> A normal society can build on strong ties based on 'mutual good office',<sup>34</sup> mainly in the private realm where individuals are embedded in the circles of family, friends, and acquaintances.

Sympathy-based relations thus continue to be relevant after the individuals have achieved maturity, and have a deep and lasting impact on them. '[L]iving only in the opinion of others',<sup>35</sup> which Rousseau had decried as an aspect of the

<sup>25</sup> WN V.I.Concl.5.

<sup>26</sup> WN V.I.III.II.61.

<sup>27</sup> WN V.I.III.II.50. This topic will be taken up in chaps 6.2–3 of this volume.

<sup>28</sup> TMS VII.IV.26.

<sup>29</sup> TMS III.III.38.

<sup>30</sup> WN V.I.III.III.12.

<sup>31</sup> WN V.I.III.III.12.

<sup>32</sup> TMS II.II.3.2.

<sup>33</sup> TMS II.II.3.1.

<sup>34</sup> TMS II.II.3.1.

<sup>35</sup> Rousseau, *The Discourses and Other Early Political Writings*, 187.

moral corruption of modern society, is for Smith the very condition of being human;<sup>36</sup> the important question is *how* individuals mirror themselves in the eyes of others, and whether they do so in morally adequate ways. But as we shall see, Smith's account of the *economic* realm has a different structure, so that it is justified to speak of 'atomistic' individuals there. But this has a different flavour, and is much less implausible and problematic, if one takes into account that the Smithian individuals are always embedded in the private 'circles of sympathy'.

In Hegel's case it may be less surprising than in Smith's to speak of a 'social' self. As we have seen, his notion of *Geist* as "I" that is "We" and "We" that is "I",<sup>37</sup> expresses the intimate relation and organic unity between individual and community. *Geist* is constituted by the mutual recognition of individuals, after the unsuccessful one-sided attempts to be recognized as a self-sufficient individual in the 'struggle for recognition' and the dialectic of lordship and bondage.<sup>38</sup> Hegel makes clear that in his account of modern *Sittlichkeit* in the *Philosophy of Right* this stage has already been overcome, and the 'concept of right' is taken as given, which presupposes that individuals grant each other rights, that is, *mutually* recognize each other.<sup>39</sup> What continues to be important, however, is how *Geist* is transmitted from one generation to the next. For this purpose, education is central: it turns children from natural beings into members of *Geist* who recognize others and are recognized by them.

In the *Philosophy of Right* Hegel describes education as one of the central tasks of the family and a 'right' of the child.<sup>40</sup> Not unlike Smith, Hegel maintains that an essential aspect of education is to learn self-command and thus to liberate oneself from natural immediacy.<sup>41</sup> The biological drives are to be replaced by obedience to social norms, first in the form of feelings: parents 'instil . . . ethical principles into [the child] in the form of an immediate feeling';<sup>42</sup> the education in the family is thus a 'formation of the heart'.<sup>43</sup> Hegel speaks of 'personal idiosyncrasy' being replaced by 'universality': young people need to develop certain 'universal characteristics', because persons without this universality are 'apt to hurt the feelings of [their] neighbours' with their unpredictable and erratic behaviour.<sup>44</sup> This corresponds to the Smithian thought of learning to tone down one's passions so that they become harmonious with the sentiments of others.<sup>45</sup>

<sup>36</sup> Cf. also Dennis Rasmussen, *The Problems and Promise of Commercial Society: Adam Smith's Response to Rousseau* (University Park, PA: Penn State University Press, 2008), 115. But Smith nevertheless shares some of Rousseau's worries about *specific ways* of trying to attract the views of others. This will be discussed in chap. 6.2 of this volume. For a discussion of Rousseau and Smith see e.g. Phillipson, *Adam Smith*, chap. VII.

<sup>37</sup> PS #177.

<sup>38</sup> PS #187ff., cf. also chap. 3.3 of this volume.

<sup>39</sup> PR §2, cf. also Enc §433ff.

<sup>40</sup> PR §174. For a detailed discussion of Hegel's views on education see Neuhaus, *Foundations of Hegel's Social Theory*, 150ff.

<sup>41</sup> PR §175 translation changed.

<sup>42</sup> PR §175.

<sup>43</sup> Griesheim, 459.

<sup>44</sup> PR §187Z. Cf. also Hotho, 583, where Hegel speaks of the 'smoothing' of particularity.

<sup>45</sup> More than Smith, Hegel emphasizes the need for 'discipline' and punishment in this process: the aim of punishment is 'to deter [children] from exercising a freedom still in the toils of nature and to lift the universal into their consciousness and will' (PR §174). Discipline is needed to 'break' this natural will (Hotho, 551; Griesheim, 457). The aim of punishment remains, however, to 'lead the individual to

Through education, individuals learn to follow social norms; they become members of an ethical community. Hegel calls this a 'second birth', in which the struggle with natural instincts is overcome and a 'second, intellectual nature' is acquired.<sup>46</sup> By becoming habituated to social norms and practices, children become, as it were, 'children of their time',<sup>47</sup> and the *Geist* of their time is transmitted and sustained.<sup>48</sup> Education prepares children to leave their families,<sup>49</sup> and to 'become recognized as persons in the eyes of the law and as capable of holding free property of their own and founding families of their own'.<sup>50</sup> The (male) individual then becomes a 'son of civil society'.<sup>51</sup>

As legal subjects, individuals are in effect treated as independent, self-sufficient and, as it were, 'atomistic' beings: they own property that they can use as they like, and they can engage in purely instrumental relations with others.<sup>52</sup> But this is not the only relation between the individual and civil society. The phrase 'son of civil society' is telling: it implies that the process of formation (*Bildung*) is not finished when individuals leave the family. Essential aspects of this further formation take place in the labour that individuals have to perform in a market economy, as we shall shortly see. The relevance of labour for the formation of the self is already indicated, however, in the fact that in the constitution of *Geist* in the *Phenomenology* labour plays an important role. It is through labour that the bondsman learns to control his passions: work is 'desire held in check' that teaches him to become 'conscious of what he truly is'.<sup>53</sup> When labouring on external material, it becomes clear to him that nature is not something alien and inimical, but something that can be transformed according to his will and used for his own purposes.<sup>54</sup> Pulling the object of his work out of the causal chains of nature and turning it into something independent, the bondsman comes to see his own independence as an individual being.<sup>55</sup> Historically, men have shaped nature in various ways in order to 'liberate themselves from its dominance'; this historical labour has contributed to the development of human self-consciousness.<sup>56</sup> It is

the moral and the ethical'. Hegel rejects blind obedience for obedience's sake and maintains that all discipline must aim at developing the child's 'free independence' (Griesheim, 457).

<sup>46</sup> PR §151, cf. also PR §148ff. and Enc §485, where Hegel also uses the Aristotelian conception of a 'second nature' (cf. also Muller, *The Mind and the Market*, 153, on the importance of this notion for Hegel).

<sup>47</sup> Cf. PR, Preface, 11.

<sup>48</sup> This explains why Hegel rejects the educational principles of Rousseau's *Émile*, in particular the idea of 'withdrawing children from the common life of every day and bringing them up in the country' (PR §153Z). Put in slightly paradoxical terms: it is unnatural for children to be kept in a natural state, because it is part of human nature to move towards its *telos*, freedom, and as this freedom is a *social* freedom, it is unnatural to keep children away from the common life in which it is embodied.

<sup>49</sup> PR §175, cf. also Hotho, 554.

<sup>50</sup> PR §177, cf. also §181.

<sup>51</sup> PR §238. Women are, for Hegel, confined to the household; they leave the family by becoming wives (PR §177).

<sup>52</sup> Cf. also Muller, *The Mind and the Market*, 154.

<sup>53</sup> PS #195, cf. also Enc §435 and Z.

<sup>54</sup> PS #196.

<sup>55</sup> PS #195.

<sup>56</sup> Peter G. Stillman, 'Partiality and Wholeness: Economic Freedom, Individual Development, and Ethical Institutions in Hegel's Political Thought', in William Maker (ed.), *Hegel on Economics and Freedom* (Macon, GA: Mercer University Press, 1987), 65–96, 78.

this emphasis on labour as a formative power on the human mind that we will also encounter in Hegel's description of labour in civil society.

### 4.3 IDENTITY IN THE MARKET

Smith's and Hegel's basic assumption about the sociality of human nature and their description of the socialization process thus show a striking similarity. As Angelica Nuzzo puts it, '[t]he point, for Hegel as for Smith, is that only through society can we gain access to ourselves'.<sup>57</sup> Against Rousseau's image of the lonely 'noble savage' they hold on to the claim that humans can be human only in society, embedded in the family and the 'circles of sympathy'. Robinson could live on his island *as a human being* only because he had been socialized earlier in life, and his situation remains a precarious exception; whereas the Wild Boy of Aveyron and other feral children never had a chance to turn into fully developed human beings. Smith and Hegel follow the Aristotelian line that man is 'the best of the animals when completed' by society, but 'when separated from law and adjudication he is the worst of all'.<sup>58</sup>

The social world that the Smithian and Hegelian individuals inhabit, however, is different from the Aristotelian polis, in which economic activities had been circumscribed by the sphere of the household, the *oikos*. In Smith's and Hegel's time economic life had become a 'political economy', an independent public sphere in which individuals encounter each other as vendors and customers, colleagues and employees. Given that men are formed in interaction with others and normally cannot live without them, the question arises as to what impact these interactions in the market have on the individuals' identity and their relations to society. More concretely, how does their professional role relate to their other roles and to their place in society? Smith and Hegel answer this question in different ways.

#### 4.3.1 Selling one's labour

As we have seen, for Smith all social phenomena that have to do with the exchange of goods and services fall under the notion of 'market', from local exchanges of agricultural goods to the colonial trade with luxury items. Exchange is profitable because different people offer different things, complementing one another. This ability to exchange is a unique ability of the human species: although the differences between different races of animals, for example, between different breeds of dog, are much greater than between different men,<sup>59</sup> animals lack the ability to unite their different strengths and to 'contribute to the better accommodation and

<sup>57</sup> Angelica Nuzzo, 'The Standpoint of Morality in Adam Smith and Hegel', in Vivienne Brown and Samuel Fleischacker (eds.), *The Philosophy of Adam Smith. The Adam Smith Review, 5: Essays Commemorating the 250th Anniversary of The Theory of Moral Sentiments* (London/New York: Routledge, 2010), 37–55, 46.

<sup>58</sup> Aristotle, *The Politics*, 1253a30.

<sup>59</sup> WN I.II.5f.

convenience of the species' jointly, through 'barter and exchange'.<sup>60</sup> Humans are much more similar than different kinds of dogs—differences arise 'not so much from nature, as from habit, custom, and education'<sup>61</sup>—but the ability to exchange makes these differences useful:

The most dissimilar geniuses are of use to one another; the different produces of their respective talents, by the general disposition to truck, barter, and exchange, being brought, as it were, into a common stock, where every man may purchase whatever part of the produce of other men's talents he has occasion for.<sup>62</sup>

It is striking how much dignity and respect Smith sees in this mutual usefulness of human beings for one another. The famous passage about the self-interest of the butcher, brewer, or baker is rhetorically contrasted with a puppy that 'fawns upon its dam' and a spaniel that 'endeavours by a thousand attractions to engage the attention of its master who is at dinner, when it wants to be fed by him'.<sup>63</sup> Men, Smith holds, sometimes also rely on the benevolence of others within the circles of their family and friends. In the economic realm, however, which puts them into contact with a much wider group of people, they act as equal exchange partners: they have something to offer, and can thus enter into contractual relations that are useful to *both* sides. Smith illustrates this with the example of a street porter and a philosopher: the street porter helps the philosopher with his purchases and contributes to the provision of cheaper goods in the market by transporting them carefully; the philosopher, indirectly, is useful to the street porter not only as an occasional customer, but also because he helps to invent and improve different techniques and preserves and enlarges society's knowledge.<sup>64</sup>

Conscious that they all contribute to the 'common fund' of society, the citizens of a market society recognize and respect each other. Importantly, not only those who have goods or capital to offer, but *everyone* can join the market and is respected as someone who makes valuable contributions: those who have no material goods to offer—and in Smith's time this would have been the bulk of the population<sup>65</sup>—can offer their labour. By getting trained, collecting experience and developing expertise, they can even invest in its improvement. Smith anticipates the notion of 'human capital' when arguing that the 'improved dexterity of a workman' is similar to 'a machine or instrument of trade', because 'though it costs a certain expence, [it] repays that expence with a profit'.<sup>66</sup> The acquisition of human capital is a route to 'bettering one's condition' which is open to almost

<sup>60</sup> WN I.II.5f., cf. also LJ(B) 493.

<sup>61</sup> WN I.II.4, cf. also LJ(A) 348f. Smith thus reverses the Platonic logic according to which different professions are founded on innate differences (cf. Samuel Fleischacker, *A Third Concept of Liberty: Judgment and Freedom in Kant and Adam Smith* (Princeton: Princeton University Press, 1999), 134).

<sup>62</sup> WN I.II.5, cf. LJ(A) 348, LJ(B) 488f.

<sup>63</sup> WN I.II.2.

<sup>64</sup> LJ(A) 349, cf. also LJ(B) 493, ED I.19, II.11. The fact that Smith uses the example of a philosopher—his own profession—underlines the fact that he sees himself as part of 'general humanity' (Fleischacker, *On Adam Smith's Wealth of Nations*, 75), creating a common point of view with the reader.

<sup>65</sup> Cf. e.g. WN I.VIII.36.

<sup>66</sup> WN II.I.17. Cf. Pedro N. Teixeira, 'Dr Smith and the Moderns: Adam Smith and the Development of Human Capital Theory', *The Adam Smith Review* 3 (2007), 139–58, on the beginnings of human capital theory, in which several authors explicitly referred to Smith.



everyone.<sup>67</sup> The right to the fruits of one's labour is, for Smith, therefore 'the most sacred and inviolable' of man's properties.<sup>68</sup>

The significance of this argument becomes clear when one compares Smith's position to one of the most important alternatives in his time, civic humanism. Civic humanists ascribe a special dignity and capacity for virtue to the possession of property, in particular landed property (not so much financial capital).<sup>69</sup> By expanding the notion of capital, Smith turns civic humanism against itself, as it were:<sup>70</sup> commerce and exchange, seen by civic humanists as corrupting the moral bases of society, lead to a situation in which *everyone* can participate, on an equal legal footing, in the independence that the civic humanists value. Not everyone has the independence that comes from landownership, but almost everyone has, or can acquire, human capital. This allows people to choose freely whom to work for and with whom to enter into exchange relationships, rather than depending on one single employer, as had been the case in feudalism.<sup>71</sup> These one-sided dependencies, with all their opportunities for personal animosities and sadism, are replaced by the 'cash-nexus',<sup>72</sup> which connects people of equal legal standing, and by an 'exit option'<sup>73</sup> for any particular relationship, because every customer contributes 'but a very small proportion' to a person's subsistence.<sup>74</sup>

This description is fascinating with regard to how much dignity and competence it ascribes to all citizens: sovereign individuals encounter each other as equals and exchange goods and services, each one recognizing that the others also have something to offer and respecting them as potential trading partners. It is important to note, however, how Smith conceptualizes this process. The Smithian individuals treat their ability to work as human capital, that is, something they have at their disposal and can sell in the market—human capital is something they *have*, not something they *are*. As Patricia Werhane emphasizes, this conceptual distinction between the labourers and their productivity is a crucial move in the architecture of Smith's system: it allows him to describe how the workers sell their productivity without thereby selling themselves.<sup>75</sup> They freely choose between different options and sell to the highest bidder.

<sup>67</sup> Cf. also Edwin G. West, 'Adam Smith and Alienation: Wealth Increases, Men Decay?' in Andrew S. Skinner and Thomas Wilson (eds.), *Essays on Adam Smith* (Oxford: Clarendon Press, 1975), 540–51, 545ff.

<sup>68</sup> WN I.X.II.12.

<sup>69</sup> Cf. in particular J. G. A. Pocock, *The Machiavellian Moment. Florentine Political Thought and the Atlantic Republican Tradition* (Princeton: Princeton University Press, 1975).

<sup>70</sup> Cf. Christopher Berry, *The Idea of Luxury. A Conceptual and Historical Investigation* (Cambridge: Cambridge University Press, 1994), 154ff.; cf. also Fleischacker, *A Third Concept of Liberty*, 157ff., who takes it that the reason Smith says little about these Harringtonian (or Rousseauian) worries might be that 'he takes his whole work to be an indirect answer to those concerns'.

<sup>71</sup> WN III.IV.11ff., cf. LJ(A) 50ff.

<sup>72</sup> This term has been coined by Thomas Carlyle, *Chartism* (London: J. Fraser, 1840), 66.

<sup>73</sup> The term is from Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge, MA: Harvard University Press, 1970).

<sup>74</sup> WN III.IV.11ff., cf. LJ(A) 50ff.

<sup>75</sup> Patricia Werhane, *Adam Smith and His Legacy for Modern Capitalism* (New York: Oxford University Press, 1991), 132; cf. similarly Griswold, *Adam Smith and the Virtues of Enlightenment*, 299, and Haakonssen, 'Introduction', 19.

Without this assumption, the price mechanism could not function as Smith describes it. He analyses the movement of the market price towards the 'natural price', the price at which all components of the price (rent, wages, and profits) receive their usual recompense,<sup>76</sup> as a consequence of the adaptive behaviour of the market participants:

The quantity of every commodity brought to market naturally suits itself to the effectual demand... If at any time [the quantity brought to market] exceeds the effectual demand, some of the component parts of its price must be paid below their natural rate. If it is rent, the interest of the landlords will immediately *prompt them to withdraw* a part of their land; and if it is wages or profit, the interest of the labourers in the one case, and of their employers in the other, will *prompt them to withdraw a part of their labour or stock* from this employment... If, on the contrary, the quantity brought to market should at any time fall short of the effectual demand, some of the component parts of its price must rise above their natural rate. If it is rent, the interest of all other landlords will naturally *prompt them to prepare more land* for the raising of this commodity; if it is wages or profit, the interest of all other labourers and dealers will soon *prompt them to employ more labour and stock in preparing and bringing it to market*.<sup>77</sup>

Market prices could not 'gravitate'<sup>78</sup> to natural prices, which align supply and demand, if people did not follow their interests in these ways. This presupposes, however, that all factors of production are flexible, so that individuals are not stuck in specific investments. Smith notes in one place that when the rules and regulations of the economic system are changed, this needs to be announced well in advance, so that those who have invested in 'warehouses and in the instruments of trade' of one particular industry and will therefore be affected by the changes have time to adapt to them.<sup>79</sup> He does *not* give a similar warning with regard to *human capital*—he rather seems to assume that people are flexible enough to change into other branches easily.

This assumption, however, only makes sense when certain conditions are fulfilled. There needs to be, firstly, demand for human capital; Smith seems to assume that this is indeed the case when an economy is growing.<sup>80</sup> Secondly, the workers need to be *able* to work in these other jobs, which presupposes that their human capital is not as specific as to allow only for one unique activity. From remarks scattered in the *Wealth* one can gather that Smith thinks that this is the case.<sup>81</sup> human capital is either transferable to other areas, or workers can easily acquire new skills and competences, as a series of small investments rather than one large investment that lasts for a lifetime. Last but not least, however, the individuals must also be *willing* to change between different jobs when the market

<sup>76</sup> WN I.V.      <sup>77</sup> WN I.VII.12–14, italics added.

<sup>78</sup> WN I.VII.15.

<sup>79</sup> WN IV.II.44.      <sup>80</sup> Cf. e.g. WN I.VIII.43.

<sup>81</sup> He holds, for example, that long apprenticeships are superfluous, because the trade of a watchmaker can be learned within 'a few weeks' (WN I.X.II.16). Similarly, he mentions traders who easily switch between different markets: such a trader is 'a corn merchant this year, and a wine merchant the next, and a sugar, tobacco, or tea merchant the year after' (WN I.X.I.38; he also notes that this is possible only in great cities with a large market) and explicitly notes that '[t]o the greater part of manufactures... there are other collateral manufactures of so similar a nature, that a workman can easily transfer his industry from one of them to another' and that the 'greater part of such workmen too are occasionally employed in country labour' (WN IV.II.42).

gives them incentives to do so. This means that they must not see their professional activity as 'constitutive' for their identity, at least not the activity in one particular branch or company. In this sense, they must *not* be embedded in the social structures of their professional lives or regarded as an essential part of themselves; these must *not* 'define [them]' so completely that [they] could not understand [themselves] without [them]',<sup>82</sup> as Sandel writes with regard to 'constitutive' goals. Workers must have their human capital at their disposal, without losing their identity when deciding to put it to a different use.

This does not mean, however, that Smithian individuals can be described as completely 'unencumbered'.<sup>83</sup> As we have seen, they are socially embedded elsewhere, each in his or her own 'circles of sympathy', where they have 'constitutive' aims and commitments, as brothers and sisters, parents and children, or as friends with a shared understanding of virtue.<sup>84</sup> As Smith's remark on the fate of the worker in the anonymity of the big city has shown, these circles are necessary for the individuals' ability to follow basic moral rules and social norms. Without this embedding, it is questionable whether they would be psychologically able to make use of their human capital in the prudent, sovereign way that Smith describes. But if they were similarly embedded in the labour market, they would not be flexible enough to allow the price mechanism, and thus the self-regulation of the market, to work.

Nevertheless, one finds a number of remarks in Smith that gesture to the possibility that their professional roles might mean more to individuals than the selling of 'human capital'. He talks about habitual sympathy that creates a kind of friendship between 'colleagues in office' or 'partners in trade' that is 'not unlike that which takes place among those who are born to live in the same family'.<sup>85</sup> He calls man 'of all sorts of luggage the most difficult to be transported',<sup>86</sup> which points to regional embeddedness; it explains why there can be geographical variation in wages. He is conscious that different 'passions', 'characters', and 'manners' belong to different 'professions and states of life', sometimes as a result of social expectations and fashions, sometimes caused by the nature of the activity.<sup>87</sup> He also assumes that professional groups and associations arise naturally, and that individuals are attached to them because '[their] own interest, [their] own vanity, the interest and vanity of many of [their] friends and companions, are commonly a good deal connected with [them]'.<sup>88</sup> But these remarks about social ties in the economic realm represent the unofficial side of Smith's picture. The official side shows his account of the price mechanism, and describes capital and

<sup>82</sup> Sandel, 'The Procedural Republic and the Unencumbered Self', 86.

<sup>83</sup> Interestingly, when Sandel talks about constitutive ends he says that the 'loyalties and convictions' that are inseparable from our understanding of ourselves are developed 'as members of this family or community or nation or people, as bearers of that history, as citizens of this republic' ('The Procedural Republic and the Unencumbered Self', 86). He does *not* mention professional identities (unless these are subsumed under 'communities').

<sup>84</sup> Cf. TMS VI.II.17.

<sup>85</sup> TMS VI.II.15. I am grateful to Eric Schliesser for drawing my attention to this passage.

<sup>86</sup> WN I.VIII.31.

<sup>87</sup> TMS V.II.3ff., cf. also WN III.IV.3.

<sup>88</sup> TMS VI.II.2.7.

labour force as ‘flowing’<sup>89</sup> into different sectors. The social ties people might have in the economic realm must not keep them back when there are incentives to venture into a new job or a new kind of investment. In order to make wise use of one’s capital, human or other, one needs to stand apart from it, serenely choosing the usage that leads to the highest return.

### 4.3.2 Choosing one’s place

In Hegel’s conception of civil society, the relation between a person and his or her labour is constructed differently. The central elements of his view are captured in a quote from §207 of the *Philosophy of Right*:

A man actualizes himself only in becoming something definite, that is, something specifically particularized . . . In this class-system, the ethical frame of mind therefore is rectitude and *esprit de corps*, that is, the disposition to make oneself a member of one of the moments of civil society by one’s own act, through one’s energy, industry, and skill, to maintain oneself in this position, and to fend for oneself only through this process of mediating oneself with the universal, while in this way gaining recognition both in one’s own eyes and in the eyes of others.

Hegel emphasizes that individuals need to find their place in the social system.<sup>90</sup> In contrast to pre-modern times—Hegel thinks in particular of the Platonic polis—they choose it themselves: this is an aspect of modern freedom.<sup>91</sup> In this choice, different factors like ‘natural capacity, birth, and other circumstances’ play a role. But the ‘essential and final determining factors are subjective opinion and the individual’s arbitrary will’.<sup>92</sup> Individuals, however, choose not only which kind of human capital to invest in. Rather, they also choose whom to *become* and which place to take up in civil society: they choose an essential aspect of their identity. They thus become members of the different ‘moments’ of civil society: of the different classes—agrarian, commercial, or ‘universal’, that is, civil service<sup>93</sup>—and, within the commercial class, of the different corporations.<sup>94</sup> The corporations

<sup>89</sup> Smith often uses metaphors of water and of ‘flowing’ when describing markets: capital ‘flows into’ certain areas, the productive powers of a country ‘flow into some branch of trade’, and when a government tries to domesticate this energy by banning, for example, the export of bullion, pressure will build up as in a dam, etc. (e.g. WN IV.V.19, WN II.II.30, LJ(A) 387). This metaphor was common in the 18th century; it can already be found in François Fénelon’s *Les Aventures de Télémaque* (1699) (Paris: Editions Gallimard, 1995), chap. III. Daniel Defoe, to take another example, compared an estate to a pound and trade to a spring (quoted in Thomas Rommel, *Das Selbstinteresse von Mandeville bis Smith. Ökonomisches Denken in ausgewählten Schriften des 18. Jahrhunderts* (Heidelberg: Universitätsverlag Winter, 2006), 95).

<sup>90</sup> Cf. also Muller, *The Mind and the Market*, 141.

<sup>91</sup> PR §185, §206, §236Z, §299, cf. also Hotho, 634.

<sup>92</sup> PR §206, cf. Hotho, 633.

<sup>93</sup> PR §201ff. It is telling that whereas Smith distinguishes classes with respect to kinds of income (wages, rents, and profits), Hegel sticks to the much more traditional distinction of agricultural class, business class, and ‘universal’ class. As Waszek shows, he is here much closer to Steuart than to Smith, and might also have drawn on Prussian law and the historical reality in Germany in his time (*The Scottish Enlightenment and Hegel’s Account of ‘Civil Society’,* 171ff.).

<sup>94</sup> PR §250ff.

form ‘small circles in the large circles’;<sup>95</sup> together with the classes they constitute the structure that gives civil society its internal differentiation and hence stability.

For Hegel the choice of one’s occupation is thus far more important than for Smith—in Sandel’s terms, their professional identities are ‘constitutive’ for Hegelian individuals. When asking why Hegel chooses this model, two levels of an answer can be distinguished. There is, first of all, a practical argument: in contrast to Smith, Hegel thinks that switching between different professions is difficult, if not impossible. This can be seen in his remarks about the unemployment, and hence misery, of those who lose their job: their skills are so specific that they cannot use them in other branches of industry.<sup>96</sup> As Priddat emphasizes, Hegel’s conception of the market economy does not include a market for ‘abilities’; the thought that those who become unemployed, for example as a result of technical progress, can find work elsewhere seems to be foreign to him.<sup>97</sup> This is why for Hegel the labour market needs to be regulated by the corporations, even if, as we have seen, it is not quite clear how these can co-exist with free markets for goods and services.

Priddat holds that this element in Hegel’s thought has its origins in the German cameralist tradition.<sup>98</sup> This may well be the case, but as I will argue in what follows, there is a second, more philosophical dimension to this problem that leads Hegel to hold that one’s profession is something one *is*, rather than something one *has*. What is at stake here is the specific way in which ‘particularity’ and ‘universality’ are connected in civil society. Hegel describes civil society as follows:

This is the stage of difference. This gives us, to use abstract language in the first place, the determination of particularity which is related to universality but in such a way that universality is its basic principle, though still only an inward principle; for that reason, the universal merely shows in the particular as its form.<sup>99</sup>

The sphere of civil society is what differentiates modern societies from their ancient and medieval predecessors. It is marked by the principle of particularity: each individual is given ‘the right to develop and launch forth in all directions’.<sup>100</sup> ‘Man as man, that is as particular individual’, must have his right in civil society,<sup>101</sup> as ‘infinitely independent free subjectivity’.<sup>102</sup>

<sup>95</sup> Hotho, 713.

<sup>96</sup> Hotho, 610, cf. similarly Griesheim, 600. Later in the Hotho lectures Hegel explicitly discusses the assumption of ‘liberalism’ that if a trade is crowded, individuals will leave it on their own. He argues that the individuals have only ‘those abilities’, having dedicated ‘the capital both of their talents and of their money’ to this particular trade; thus they can only ‘leave’ it with ‘sorrow and misery’, through ‘perdition’ (698f.). In the Griesheim lectures, Hegel connects this problem to the stultification through the division of labour that Smith also fears (cf. chap. 6.2 of this volume), arguing that it is *because* their minds have become dull that workers cannot find new jobs, becoming the ‘most dependent’ of all human beings (503). In addition, Hegel mentions age and habituation as factors that make it difficult or impossible for individuals to change into another industry (Griesheim, 625).

<sup>97</sup> Priddat, *Hegel als Ökonom*, 202ff. Cf. also chap. 3.4 of this volume.

<sup>98</sup> Priddat, *Hegel als Ökonom*, 202ff.

<sup>99</sup> PR §181.

<sup>100</sup> PR §184, cf. also Hotho, 501, 620. For the relation to Hegel’s discussion of the will see Schmidt am Busch, ‘*Anerkennung*’ als Prinzip der kritischen Theorie, chap. 3.

<sup>101</sup> Griesheim, 509.

<sup>102</sup> PR §187.

This particularity expresses itself in the individuals' ability to satisfy their needs and desires, and even their 'caprice': people here act as 'a totality of wants and a mixture of caprice and physical necessity'.<sup>103</sup> This is the dimension of the market society that gives them the opportunity for 'atomistic' and independent choices. But the differentiation of needs implies the differentiation of the ways in which they are satisfied, that is, the division of labour and the development of different professions.<sup>104</sup> Here, individuals also have to make a choice: everyone has to 'turn himself into that which he takes to be his calling',<sup>105</sup> guided by his particular 'talents, plans, and self-interest'.<sup>106</sup> Through this choice, man becomes 'something definite', 'something specifically particularized'.<sup>107</sup> Hegel observes that young people, driven by idealistic thinking,<sup>108</sup> often resent this choice, seeing it as 'a restriction on [their] universal character and as a necessity imposed on [them] purely *ab extra*'.<sup>109</sup> But in Hegel's eyes this is a misunderstanding, a result of 'abstract' thinking: in order to be something, one must become something determinate that can win 'actuality and ethical objectivity'.<sup>110</sup> The universal, in order to be real, must 'unfold itself' in its different moments,<sup>111</sup> and in order to be a member of civil society, one cannot remain something 'general', but has to choose one particular position.<sup>112</sup> An individual 'is something' only by becoming a member of a social class, Hegel holds, noting that among 'us Germans' the question 'what is he?' is answered by stating the social class ('Stand') to which someone belongs.<sup>113</sup> Without such an affiliation, he is 'merely a private person', a 'single one', whereas in a professional position he is lifted into a 'particularity which is universally recognized and valid'.<sup>114</sup> his particularity takes on the 'form of universality'.<sup>115</sup>

The importance of the choice of place can be made clear if one recalls Hegel's criticism of 'abstract morality' and the reasons he gives for the superiority of *Sittlichkeit*: in their social roles, individuals are provided with concrete moral tasks, rather than being left alone with an abstract rule, and as they become habituated to these roles, it becomes natural for them to fulfil their duties, so that the struggle between duty and inclination is overcome.<sup>116</sup> The choice of one's profession therefore plays an important role in determining what one's duties are: 'my station and its duties', as Francis Herbert Bradley famously put it,<sup>117</sup> are partly chosen in the choice of profession. Hegel explicitly notes that in civil society morality has its place in the particularity of professional life: once the essential duties have been fulfilled, there are still 'a large number of chances left for which the moral disposition is responsible'.<sup>118</sup> This corresponds to the task of the

<sup>103</sup> PR §182, cf. also §194 for the role of opinion for human desires. More precisely, this 'particularity' concerns individuals as heads of families; the choice of occupation, in contrast, really concerns them as single individuals—at least this is true for *male* individuals; for women the only choice seems to be whether to be a butcher's, a brewer's, or a baker's wife.

<sup>104</sup> PR §196ff.

<sup>105</sup> Griesheim, 509.

<sup>106</sup> Griesheim, 481.

<sup>107</sup> PR §207.

<sup>108</sup> Cf. Hotho, 526.

<sup>109</sup> PR §207.

<sup>110</sup> PR §207.

<sup>111</sup> Hotho, 526.

<sup>112</sup> Hotho, 638.

<sup>113</sup> Griesheim, 525, cf. also Hotho, 635.

<sup>114</sup> Hotho, 637.

<sup>115</sup> Hotho, 635.

<sup>116</sup> PR §146f., cf. chap. 3.3 of this volume.

<sup>117</sup> Francis Herbert Bradley, 'My Station and its Duties', in *Ethical Studies* (Oxford: Oxford University Press, 1876), 160–213.

<sup>118</sup> Hotho, 639.

corporations—the *professional* associations—to care for the individual needs of their members, a moral task that can be fulfilled without ‘either pride or envy’ for both sides, because it is organized in recognized social roles and routines.<sup>119</sup> The *political* participation of individuals—as far as Hegel provides for it—is equally organized through the classes and corporations. The estates, through which representatives of the different social groups participate in the legislation, bring to the political sphere ‘a knowledge in particular of what the state’s power needs’;<sup>120</sup> they are a ‘mediating organ’ between the government and the population.<sup>121</sup>

But civil society is also a sphere of the universal, albeit in a specific sense. In the passage from §207 quoted at the beginning of this section, Hegel speaks about the ‘process of mediating oneself with the universal’,<sup>122</sup> and it is this ‘mediated’ form of the universal that is relevant here. In an economy characterized by the division of labour, ‘subjective self-seeking’ is ‘by a dialectic advance’ directed towards the satisfaction of the interests of other persons.<sup>123</sup> Universality is therefore the second principle of civil society:<sup>124</sup> it is ‘the ground and necessary *form* of particularity, but also the authority standing over it and its final end’.<sup>125</sup> But this universality is only formal; it is the ‘inward principle’<sup>126</sup> of the ‘system of complete interdependence, wherein the subsistence, welfare, and legal status of one man is interwoven with the subsistence, welfare, and rights of all’.<sup>127</sup>

The particularity that the individuals choose for themselves needs to stand in this connection with ‘the universal’: they must produce sellable goods or services, and thus—without this necessarily being part of their intention—contribute to the welfare of others, becoming a ‘link in this chain of social connexions’.<sup>128</sup> At this point we encounter, for a second time in the *Philosophy of Right*, the topic of education, or rather formation (*Bildung*<sup>129</sup>): because civil society contains this element of universality, it can guide its members towards it. This happens through the labour that individuals have to perform.<sup>130</sup> Here men learn to control themselves and to accommodate themselves to the interests and desires of other workers,<sup>131</sup> and they develop a ‘recurrent need for something to do and the

<sup>119</sup> PR §253, Hotho, 710.

<sup>120</sup> PR §300.

<sup>121</sup> PR §302. For a discussion see e.g. Herbert Schnädelbach, ‘Die Verfassung der Freiheit’, in Ludwig Siep (ed.), *Klassiker auslegen: G. W. F. Hegel, Grundlinien der Philosophie des Rechts* (Berlin: Akademie Verlag, 1997), 243–65, 257f.

<sup>122</sup> PR §207.

<sup>123</sup> PR §199, Hotho, 567, 581.

<sup>124</sup> PR §182.

<sup>125</sup> PR §184, italics added.

<sup>126</sup> PR §184.

<sup>127</sup> PR §183, translation changed.

<sup>128</sup> PR §187.

<sup>129</sup> *Bildung* is here translated as ‘formation’, which partly captures the German connotations of ‘forming’ or ‘moulding’. *Bildung* was a key term in German Enlightenment discourse (cf. Rudolf Vierhaus, ‘Bildung’, in Otto Brunner, Werner Conze, and Reinhart Koselleck (eds.), *Geschichtliche Grundbegriffe. Historisches Lexikon zur politisch-sozialen Sprache in Deutschland* (Stuttgart: Klett-Cotta, 1990), Band 1, 508–51). It was understood as making human beings both better and happier (512). But the notion went beyond this instrumental aspect, especially for thinkers like Herder and Goethe: *Bildung* (which was then contrasted with mere ‘education’) was understood as a living ‘self-formation’ that helped people to develop their individuality; it carried connotations of culture and humaneness. For the importance of *Bildung* for Hegel’s self-understanding cf. also Pinkard, *Hegel, passim*.

<sup>130</sup> PR §187.

<sup>131</sup> PR §197. As Neuhauser emphasizes, the kind of work that is performed in civil society demands a systematic attention to the will of other people, which distinguishes it from pre-modern forms of work (*Foundations of Hegel’s Social Theory*, 161).

habit of simply being busy'.<sup>132</sup> Insofar as it contributes to the liberation from biological drives, there is thus a 'moment of liberation intrinsic to work'.<sup>133</sup> In modern society, this experience is something almost all (male) citizens undergo, because labour is not delegated to foreigners or slaves.<sup>134</sup> As Alfredo Ferrarin notes, Aristotle had not seen the dignity of labour; this view was developed by Luther and Calvin and taken up by Hegel, for whom it is 'one of the highest forms of spirit's practical education of itself'.<sup>135</sup> The fact that it is not forced labour means that the workers cannot interpret it as something externally imposed and purely evil, but can learn to see it as a necessary burden of human life, 'the thorn of a rose', as William Ver Eecke puts it.<sup>136</sup>

One might think that this universality of *Bildung* contradicts the particularity which Hegel adduces as the principle of civil society, and some elements of this *Bildung* are indeed universal, such as the 'flexibility and rapidity of mind, [the] ability to pass from one idea to another [and] to grasp complex and general relations'.<sup>137</sup> But Hegel emphasizes that this universality concerns only the *form* in which individuals live their particularity: 'it is the stage of formation, in which the particular receives the *form* of universality'.<sup>138</sup> As such, it does not determine the particular purposes of the individuals.<sup>139</sup> Hegel's reflections on the process of formation in civil society thus stand in no contradiction to the claim that it is the sphere of particularity; on the contrary: as this kind of formation takes place in different professions, one can assume that there is also a *particular* aspect of formation, as everyone acquires 'his own form of formation'.<sup>140</sup> When one acquires abilities and skills, one becomes a 'master of [one's] own job', and finds satisfaction in 'produc[ing] the thing as it ought to be'.<sup>141</sup> To the degree that there is a particular element in this formation, specific to particular professions, it reinforces the identity of individuals *as* those particulars by which they participate in the economic life of the society. Hegel explicitly rejects an understanding of formation as something external, as a means towards 'needs, their satisfaction, the pleasures and comforts of private life'.<sup>142</sup> This is a clear contrast to the Smithian notion of human capital, and describes the thoroughgoing development that individuals undergo when they turn themselves into a particular 'somebody' and receive 'universality' in this form. The relation between the individual and his or her work is here much deeper than in the Smithian conception: individuals are tied to their professions because they are 'formed' by them.

When individuals encounter each other in civil society, they accordingly do so *as* particular members of social classes and corporations—*as* butchers, brewers, or bakers. Hegel explicitly notes that the recognition individuals receive in civil society is bound to their profession: one gains 'recognition both in one's own eyes and in the eyes of others' by making 'oneself a member of one of the moments of civil society'.<sup>143</sup> The social space in which this recognition takes places is provided by the corporations: there, an individual can 'command

<sup>132</sup> PR §197.      <sup>133</sup> PR §194.      <sup>134</sup> Cf. e.g. Griesheim, 512.

<sup>135</sup> Alfredo Ferrarin, *Hegel and Aristotle* (New York: Cambridge University Press, 2001), 353, 350.

<sup>136</sup> William Ver Eecke, 'Hegel on Freedom, Economics, and the State', in William Maker (ed.), *Hegel on Economics and Freedom* (Macon, GA: Mercer University Press, 1987), 127–57, 147.

<sup>137</sup> PR §197.      <sup>138</sup> Hotho, 579, Griesheim, 517 italics added.      <sup>139</sup> Hotho, 584.

<sup>140</sup> Griesheim, 513.      <sup>141</sup> PR §197Z.      <sup>142</sup> PR §187.      <sup>143</sup> PR §207.



the respect due to one in his social position';<sup>144</sup> the members are recognized as 'somebody', and their economic activities receive 'rank or dignity'.<sup>145</sup> Hegel speaks of 'rectitude' and the 'honour' of one's social position (*Standesehre*) that is connected to one's skills as the ethical attitude in civil society.<sup>146</sup> In the corporation, 'the bourgeois is a master, a man of honour, and is recognized as such'.<sup>147</sup> What is recognized in these social roles is the ability to contribute something useful to the social whole,<sup>148</sup> but also the particular abilities of individuals; the recognition also comprises, in a sense, their decision to choose this kind of profession, and hence their free will. Hegel says that the individual's 'arbitrary will' wins 'right . . . merit, and . . . dignity' in civil society,<sup>149</sup> and one form that this dignity takes is to be recognized as a particular somebody, who has chosen this profession for himself or herself and now excels in it.

All this shows that for Hegel one's professional identity is in a deep sense part of who one is. Individuals are not merely selling their labour, but are embedded in the social structures of the classes and the corporations. In Sandel's terms, their professional activities are partly 'constitutive' of who they are. This resonates with the Lutheran tradition and its conception of the 'universal priesthood of all believers': the jobs of lay people are a 'service' to God in the same sense in which a priest's activity is *his* service.<sup>150</sup> The term '*Beruf*' in German has long had a religious connotation, which shows up in the etymological connection to '*Berufung*' ('calling' or 'vocation'). The strong religious sense of 'vocation' may have been lost in the course of the 18th century, but the connotations of 'doing one's duty' and 'being someone' remained vivid in Hegel's time.<sup>151</sup> To a certain degree they are still present today, which may explain the unease among Germans with regard to the notion of 'human capital'.<sup>152</sup>

What follows from this for Hegel's conception of the market is that the individuals are much less 'unencumbered' than in Smith's account. Hegelian individuals also have a sphere for 'atomistic' behaviour: in the sphere of *consumption* they are free to live out their individualistic preferences, without being constitutively determined by anything.<sup>153</sup> But in the sphere of *production*, in the labour market, they are not conceptualized as sovereign, self-sufficient individuals who choose where best to invest their 'human capital', uninhibited by social ties or

<sup>144</sup> PR §253. <sup>145</sup> Ibid. <sup>146</sup> Hotho, 635, 714; Griesheim, 523, 623.

<sup>147</sup> Griesheim, 627.

<sup>148</sup> This ability can also be a ground for recognition among those who do not have *specific* abilities (e.g. day labourers, cf. PR §252)—but for Hegel they are not part of a corporation, and thus lack the recognition as someone particular with specific abilities. For a discussion cf. Schmidt am Busch, '*Anerkennung*' als Prinzip der kritischen Theorie, 43ff.

<sup>149</sup> PR §206.

<sup>150</sup> Cf. e.g. Gustaf Wingren, *The Christian's Calling: Luther on Vocation* (Edinburgh: Oliver & Boyd, 1958).

<sup>151</sup> Werner Conze, 'Beruf', in Otto Brunner, Werner Conze, and Reinhart Koselleck (eds.), *Geschichtliche Grundbegriffe. Historisches Lexikon zur politisch-sozialen Sprache in Deutschland* (Stuttgart: Klett-Cotta, 1990), Band 1, 508–51, in particular 503.

<sup>152</sup> This term was chosen as the 'ugliest word of the year' (*Unwort des Jahres*) in 2004. *Wikipedia*, 'Unwort des Jahres (Deutschland)' [online] <[http://de.wikipedia.org/wiki/Unwort\\_des\\_Jahres\\_\(Deutschland\)](http://de.wikipedia.org/wiki/Unwort_des_Jahres_(Deutschland))> (accessed 11 June 2012).

<sup>153</sup> Hegel also notes, however, that the members of a corporation will normally adopt their fellow members' consumption patterns, cf. PR §253. Cf. chap. 6.3 of this volume.

the specificity of their human capital. Rather, by choosing their profession they choose their place in society. They are formed by their profession and live in the contexts of their professional associations, in ways that are very much 'embedded', with both the protection and the dependence that this term implies. By choosing their profession, individuals thus choose *where* to be embedded.

#### 4.4 CONCLUSION: SELF AND SOCIETY

As this discussion has shown, the cliché of Smith as presenting a completely 'atomistic' view of human nature and of Hegel as having an 'embedded' account *tout court* is misguided, but it is to some degree justified with regard to the labour market. In Smith's account, sovereign individuals sell their human capital, choosing freely where best to use it. In Hegel's account, individuals choose to be, and then *are*, butchers, brewers, or bakers; they are recognized as such and embedded in the social contexts of these roles.

Interestingly, this difference is not only one between theoretical models. The empirical research on 'varieties of capitalism', spearheaded by Peter Hall and David Soskice, shows that there are massive differences between the ways in which the labour market is organized in different market societies. In so called 'liberal' economies, as can be found mainly in Anglo-American countries, labour contracts are, on average, rather short and there is little protection for workers; in 'coordinated' market economies, as exemplified by the continental European economies, contracts are much longer and there is more employment protection. Hall and Soskice argue that this has to do with the kinds of human capital companies need: in coordinated market economies, many firms rely on very specific skills, so there has to be more protection for workers to make it worthwhile to invest in these skills. In the more 'fluid' markets of liberal market economies, in contrast, economic agents have 'greater opportunities to move their resources around in the search of higher returns, encouraging them to acquire switchable assets, such as general skills or multi-purpose technologies'.<sup>154</sup> The structures of educational and other institutions (e.g. employee representatives in German company boards) mirror these differences; and as the authors argue, both models can be successful if they have the right mixture of institutions and forms of production. Hall and Soskice do not address the question of people's deeper conceptions of their professional identities in the way that has been discussed here. Anecdotal evidence, however, gestures towards the fact that there are indeed differences in people's self-interpretation with regard to their professional identity in different countries.<sup>155</sup> The close correspondence between

<sup>154</sup> Peter A. Hall and David Soskice, 'An Introduction to Varieties of Capitalism', in Peter A. Hall and David Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001), 1–68, 17.

<sup>155</sup> For example, while Germans today, as in Hegel's time, describe their profession ('I am a . . .') when asked what they do to earn a living, Robert Jackal notes that American managers, when describing their work, 'almost always first say: "I work for [Bill James]" or "I report to [Harry Mills]" or "I'm in [Joe Bell's] group," and only then proceed to describe their actual work functions (Robert Jackal, *Moral Mazes. The*

the contrast of liberal and coordinated market economies and Smith's and Hegel's conceptualization of professional identities is striking.

This means, however, that the relations between individual and society are much more complex and diverse than the contrast between 'individualism' and 'communitarianism' implies. As has been pointed out in the course of this debate, the contrast between Rawls and Sandel is not as stark as it initially seemed.<sup>156</sup> Rather than focussing on the contrast between 'atomistic' and 'embedded' selves, the important question is to find the right point on the scale between being embedded and being unencumbered.<sup>157</sup> This result, however, while certainly correct, does not yet do justice to the complex sociological realities of embeddedness—or the lack thereof—in concrete social contexts. Instead of discussing the purely conceptual question of 'embedded' versus 'unencumbered', what matters is to bring into view what embeddedness can or cannot mean in different spheres of society. Although my discussion has focussed mainly on one social sphere, the labour market, one can draw more general conclusions that lead the debate about the relation between individual and society onto a more constructive path.

First of all, the comparison of Smith and Hegel makes clear that for a sociologically informed political philosophy, the scale from 'embedded' to 'unembedded' must have a lower and an upper boundary. *Some* embeddedness is undeniably part of human reality, especially in the form of family ties through which children are educated and socialized. Without it, individuals could not develop the capacities needed for acting in other spheres, such as the market, where they act independently and 'atomistically'. The family, and to some degree also the 'circles of sympathy' in which individuals remain embedded as adults, are not only valuable in themselves. They are also a logical precondition for a coherent view of a liberal society that presupposes self-conscious, autonomous agents. Individuals who have not learned to act in their own long-term interest cannot profit from the opportunities that a liberal market society offers them; they are likely to end up being exploited by others and cannot contribute to making the market a place where people's collective judgments lead to a socially useful allocation of goods and services.

But to my knowledge, these forms of embeddedness have never been rejected by liberal thinkers, even if they may be guilty of not having made clear enough that by not giving them a central place, they did not intend to deny their importance. The charges raised against them are, in a sense, similar to the one-sided reception of Smith: readers have focussed on what has been said in *one* part of a theory while neglecting what has been said in another part or what has not been discussed explicitly, and then charged the authors with a one-sided vision. Just as one needs the whole Smith, one needs liberal theories that do justice to those more 'embedded' parts of a liberal society that have not been in the centre of theoretical interest so far, but are nevertheless crucial for its functioning and for theorizing about it in a coherent way.

*World of Corporate Managers* (New York/Oxford: Oxford University Press, 1988), 17. In fact, the term 'profession' is used in a much more restricted sense in English, traditionally denoting only divinity, medicine, and law, and then being expanded to areas such as nursing or social work.

<sup>156</sup> Cf. e.g. Richard Dagger, 'The Sandelian Republic and the Encumbered Self', *The Review of Politics* 61(2) (1999), 181–208, especially 190ff.

<sup>157</sup> Dagger, 'The Sandelian Republic', 193.

On the other hand, embeddedness must not go too far—there is also an upper boundary to the scale. Certain liberal rights and freedoms must be part of any theory of a modern, liberal society, and it has to assign a place in society for free choice and independent action. This holds no matter whether one sees the underlying normative view of the free, independent individual as natural and self-evident, or as a historical achievement that is made possible through structures of mutual recognition. The respect for the dignity of individuals as bearers of rights and liberties that is expressed by treating them as basic ‘elements’ of a theory should not, and does not have to be, given up when one draws attention to the numerous and diverse ways in which people are socially embedded. What contemporary communitarians can learn from Hegel is that individuality and community—‘particularity’ and ‘universality’, in his terms—hang together in complex ways, and are both necessary elements of a modern society. His theory of professional identity also shows that there can be forms of embeddedness that are freely chosen, or on which individuals can reflect and retrospectively endorse them—or maybe reject them, if they turn out to be irreconcilably at odds with their liberties or with other elements of their identity.<sup>158</sup> Hegel holds, after all, that ‘faith and trust [in such institutions] emerge *along with reflection*’.<sup>159</sup> If some basic rights and liberties and the possibility of individual justification *within* embedded social structures are not recognized, communitarian thinking risks sliding into a conservatism that justifies *any* form of embeddedness and provides no lever for criticizing injustices that communities might commit against individuals.<sup>160</sup>

The second lesson for the ‘liberal–communitarian debate’ that can be taken from the comparison of Smith’s and Hegel’s views, however, is that finding the right balance between embedded and disembedded social relations is not a question of finding the right point on a one-dimensional scale, but a multidimensional problem. There are not only different degrees, but also different *kinds* of embeddedness. Embeddedness in the private realm and in the labour market can have very different structures, and need to be taken seriously as such. Yet another form of embeddedness can be found in the Hegelian theory of the state, where individuals are not *bourgeois*, but *citoyens*;<sup>161</sup> where their recognition does not depend on the ebbs and flows of the capitalist economy<sup>162</sup> and is not limited to the social space of one particular corporation. Communitarian thinkers have often focussed exclusively on *institutional* forms of social cohesion; this may explain why they have not recognized Smith, with his focus on *private* embeddedness, as

<sup>158</sup> This has been emphasized in particular by Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right*, 229f.; cf. also Neuhauser, *Foundations of Hegel’s Social Theory*, 232, and Paul Franco, ‘Hegel and Liberalism’, *The Review of Politics* 59(4) (1997), 831–60, 833f., 857f., who argues that communitarian readings of Hegel overlook his ties to Kant and the Enlightenment.

<sup>159</sup> PR §147, italics added.

<sup>160</sup> Hegel himself may well have fallen short of this ideal, as it is not quite clear whether he thinks that all individuals really do reflect about their social position and come to the conclusion that the social whole is ‘rational’. He seems to hold that the level of consciousness varies in different groups, but that if they wished to do so, all individuals could arrive at a full justification and thus be ‘reconciled’ to their position (for a discussion see e.g. Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right*, 196, 311ff.).

<sup>161</sup> Hotho, 580.

<sup>162</sup> Cf. Enc §432Z.

one of their own, although he clearly cared about the social ties that are so crucial for the development of individuals.<sup>163</sup>

These distinctions between different social spheres and the ways in which individuals are embedded in them are neglected in most contemporary theories, liberal or communitarian. The contemporary theory that comes closest to acknowledging these differences is Walzer's account of different 'spheres of justice' in which different goods have different social meanings.<sup>164</sup> Although Walzer's approach has been strongly criticized,<sup>165</sup> one central point survives these criticisms: different social spheres have a normativity and specificity of their own, and political philosophers do well to take these into account. This does not mean that one has to make these different spheres the *only* basic elements of a theory of justice; they can well be combined with other principles, as Smith's and Hegel's theories show. But if one does not take them into account, one risks overlooking essential dimensions of the social world.

In particular, many social phenomena and developments arise from the *interplay* between the principles of these different spheres, and thus only become visible if one takes them into account. A prominent example is the problem that a principle that is quite appropriate in one sphere, for example, the market, expands into other spheres where it is highly problematic, for example, the private sphere. In fact, worries about such phenomena seem to be an important aspect of the liberal-communitarian debate.<sup>166</sup> Smith and Hegel did not yet seem very concerned about pressures from the market on the private sphere, and in their time this may not yet have been very relevant.<sup>167</sup> Karl Marx's and Friedrich Engels' *Communist Manifesto*, published twenty-seven years after the *Philosophy of Right*, charges capitalism with destroying the workers' families and with reducing the bourgeois family to an instrument of procreation.<sup>168</sup> In the 20th century, it was maybe Karl Polanyi's vision of society as a mere 'accessory of the economic system' that most clearly expresses the fear that all private relations might be completely dominated by the forces of the market.<sup>169</sup> Both Smith and Hegel would clearly not favour such a model; rather, they did not see this as a relevant

<sup>163</sup> Griswold's claim (*Adam Smith and the Virtues of Enlightenment*, 210) that the society that Smith describes is no 'organic' face-to-face society, but an 'assembly of strangers' (TMS I.I.4.9) is thus only partly true: in the market, face-to-face relationships are not necessary, but the wider society is structured by circles of sympathy that are 'face-to-face'.

<sup>164</sup> See Walzer, *Spheres of Justice*. The basic idea is taken up by Miller (*Principles of Social Justice*), whose defence of desert as the appropriate principle for the labour market is discussed in chap. 5.2 of this volume.

<sup>165</sup> Cf. e.g. the essays in David Miller and Michael Walzer (eds.), *Pluralism, Justice and Equality* (Oxford: Oxford University Press, 1995).

<sup>166</sup> Cf. also Sandel's reflections on the 'moral limits of the market' in *What Money Can't Buy*, which mainly concern the interplay between the economic and the political sphere.

<sup>167</sup> The only hint in Smith is the passage about the workers in the anonymous cities quoted earlier. See also Fred Hirsch, *Social Limits to Growth* (London: Routledge & Kegan Paul, 1977), 11f., who argues that in Smith's time the economy was still embedded in social relationships of a 'pre-market ethos'. In Hegel, the problem might be connected to the broader problem of the rabble (cf. chap. 5.3 of this volume).

<sup>168</sup> Jon Elster (ed.), *Karl Marx: A Reader* (Cambridge: Cambridge University Press, 1986), 259.

<sup>169</sup> Karl Polanyi, *The Great Transformation* (Boston, MA: Beacon Press, 1944), 75; cf. chaps 3–6 on the 'commodification' of labour, land, and money.

alternative, nor indeed as viable in any way. But one does not have to give up liberal principles in order to share this worry: one can be committed to the importance of individual rights and liberties and yet recognize that families and private ties between citizens play a crucial role in a modern society and need to be protected from economic pressures.

The labour market is not the only way in which different cultures vary with regard to embeddedness and disembeddedness and the relations between different social spheres; other examples can be found in religious life, educational structures, or the formal and informal organization of different ethnic groups. These factors vary widely even if one only takes into account Western societies, and they make one wonder whether it makes sense at all to develop one single theory of justice, rather than 'theories' in the plural. Just as there are 'varieties of capitalism', there are 'varieties of liberalism', and it seems worth taking these varieties seriously from a theoretical perspective.

It therefore turns out that the old battle between 'atomism' and 'community' is in some sense misguided. This debate has created the impression that what is at stake are two alternative foundations for social theory that are mutually incompatible. It is much more appropriate to describe these as two poles or antagonistic principles *both of which* must be part of contemporary theories of justice. Recognizing this allows one to focus on the troubling questions about embeddedness and the lack thereof that mar our societies. For example, the last decades have brought a shift, in many capitalist countries, towards a more and more 'Smithian' labour market—even in the Anglophone countries—which often undermined what was left of a 'Hegelian' understanding of professional identity that might give individuals a sense of meaning and stability.<sup>170</sup> One should be wary of romanticizing the old days—after all, even Hegel himself warns that the guilds can degenerate into a miserable system,<sup>171</sup> and Smith's *Wealth* is full of examples of the 'petty and personal despotism'<sup>172</sup> that can occur in relations of personal dependence. But one should nevertheless be aware that something is at stake in the transition towards a 'Smithian' regime, and that even if the latter may have advantages in terms of flexibility and efficiency, there are also losses: specific forms of self-understanding and specific human practices that are only possible if their work is more than a mere 'job' for individuals. Labour economists, who have by and large taken up the Smithian model, do not have the conceptual tools for exploring these existential dimensions of work. It is the task of political philosophers to remind them that the question about our identities as workers in a market society is too important to be discussed from only one theoretical perspective. Analysing the fascinating processes that can be observed in contemporary labour markets and capturing their philosophical significance is a worthy successor, although certainly only one among several, to the 'liberal-communitarian debate'.

<sup>170</sup> For Switzerland, Austria, and Germany see e.g. many of the testimonies collected in Franz Schultheis, Berhold Vogel, Michel Gemperle (eds.), *Ein halbes Leben. Biographische Zeugnisse aus seiner Arbeitswelt im Umbruch* (Konstanz: Konstanz University Press, 2010). For the US see e.g. Richard Sennett's (methodologically less rigorous) study *The Corrosion of Character. The Personal Consequences of Work in the New Capitalism* (New York: W. W. Norton & Company, 1998).

<sup>171</sup> PR §255Z.

<sup>172</sup> This phrase is from Rothschild, *Economic Sentiments*, 27.

## Justice in the Market

### 5.1 INTRODUCTION

Many political thinkers have ambivalent feelings about the distributive effects of the market. The market may be an instrument for efficiency, but can its outcomes be described as just in any sense? Can the notion of justice even be applied to the market, and in particular to the labour market? And what about those who end up at the bottom end of the income scale? Does not the market inevitably bring inequality and social exclusion?

This chapter addresses these issues, while the question about liberty in the market is postponed to the next chapter. Political theorists have mostly focussed on what justice is or means. In comparison, much less attention has been devoted to the question of what ‘the market’ is. But in order to ask how ‘the market’ relates to questions of justice, both sides of the relationship need to be addressed. In what follows, I discuss how different views of the market lead to very different answers to the questions raised above about justice, inequality, and social exclusion. For Smith, the market is a panacea for these problems, whereas for Hegel, it is a threat on all these counts. Comparing Smith’s and Hegel’s views of the market helps to analyse the conditions for making sense of the notion of justice, in particular the notion of desert, as applied to markets, and to reflect on its relation to the problems of poverty and social exclusion.<sup>1</sup> As the discussion will show, it is crucial for debates about these issues—which are often summarized under the heading of ‘social justice’—to make explicit one’s assumptions about the nature of markets and their effects on distribution and poverty. Analysing Smith’s and Hegel’s models as two paradigm cases can help to clarify what is at stake in many debates about social justice.

The next section addresses the central candidate for a principle of justice in the market: the notion of desert, and the question as to whether it can be applied to market outcomes, in particular labour market outcomes. On a Hegelian account, this does not make much sense, but for a reason that needs to be taken very seriously by liberal thinkers: the market is the sphere where subjective freedom, including all its arbitrariness and ‘caprice’, has its place. In Smith’s account, in contrast, we find a model for how a conception of desert can be used to describe

<sup>1</sup> The focus of this chapter is on poverty and social exclusion *within* market societies, rather than on questions of global justice and the relations between different market societies. Some of the arguments, especially in section 5.3, can also be related to questions of justice on an international scale, but this is not discussed explicitly.

labour market outcomes: a well-ordered market rewards certain forms of behaviour that can be described as virtuous, and these results can thus be called 'deserved'. The reward of virtue only works, however, when certain highly restrictive assumptions about the nature of labour markets hold. The analysis shows that the Smithian model is an idealization that may not often be instantiated in real markets.

I then address the questions of poverty and social exclusion. Smith's and Hegel's views of the market's effects on poverty stand in stark contrast to each other. They share a sense of the importance of non-material dimensions of poverty, but their reactions to it are very different. Whereas Smith trusts in the power of the market to bring about more equality, and hence more mutual respect, in Hegel's account the problem of poverty seems almost impossible to overcome, as the poor turn into a 'rabble' and cannot free themselves from this situation any more.

In the last section I combine these two threads and draw some conclusions on the notion of desert and on the immaterial aspects of poverty, and reflect on strategies of theorizing 'social justice'. I argue that political theorists, who, when debating social justice, have often addressed the institutions that *surround* markets, should focus more on markets themselves, both in order to clarify their debates and in order to come closer to solutions for real-world problems.

## 5.2 ARE MARKET OUTCOMES DESERVED?

When approaching the question of social justice and the market, two strategies of theorizing can be distinguished. On the one hand, a market *society* as a whole can be considered in the light of principles of justice, à la Rawls. Markets can be seen as the outflow of just institutional structures, without principles of justice being applied to markets themselves. Markets could then be said to be *justified*, but it would be odd to call them 'just' in a stronger sense. On the other hand, markets themselves can be scrutinized from the point of view of justice; this second strategy is discussed in this section. For this purpose, it suggests itself to turn to the notion of 'desert' and to the age-old idea that justice demands that people get 'what they deserve'. Markets clearly do not produce justice in the sense of perfect material equality, but can their results nevertheless be called just because they are deserved?

The idea that markets match achievement and reward is a powerful one. Today, birth and status play a much smaller role in determining people's place in society than in earlier epochs.<sup>2</sup> It is part of the progressive narrative of the West that it is, instead, desert that determines who ends up in which position.<sup>3</sup> '*La carrière ouverte aux talents*' was the battle cry of the Napoleonic era against inherited privileges, in favour of a society in which talent and achievements decide about a

<sup>2</sup> Cf. also Miller, *Principles of Social Justice*, 125ff.

<sup>3</sup> Cf. e.g. Nancy Fraser and Axel Honneth, *Redistribution or Recognition? A Political-Philosophical Exchange* (London: Verso, 2003), 140ff.; Miller, *Principles of Social Justice*, 125f., 177.



man's place. While this slogan mainly referred to positions in public service, civil or military, the idea of desert has also been applied to the free market: shouldn't a man's achievements be reflected in his position on the income scale as well? In popular perception such a notion of desert plays an important role;<sup>4</sup> it is regularly evoked in public discourse, for example, when a CEO's income is many times higher than that of a worker—can he or she 'deserve' so much more?<sup>5</sup> But it should not be left unsaid that it is an idea that is particularly attractive for those who in fact *are* successful in market societies, because it provides a flattering justification for their above-average position.<sup>6</sup> For the impartial observer this fact should be a reason for caution, because it raises the suspicion that the idea of desert might be an ideological smokescreen put up by precisely those groups.

It is thus not surprising that desert has been a topic of ongoing controversy in political philosophy. On the one hand, there are questions about the philosophical bases of ascriptions of desert that include, for example, the question of whether desert always has to do with responsible agency and how it relates to notions of intrinsic value and entitlement.<sup>7</sup> On the other hand, there is the more specific question of whether it makes sense to use the notion of desert in discussions about social justice and the market: can statements of the form 'person A deserves outcome x in virtue of y'—where y is usually taken to be something that A has done and can be held responsible for—be part of a theory of social justice? Can y be something people do in *markets*, and does it make sense to say that markets do—or should—reward people for it because they deserve this? Discussing the answers to this question that can be found in Smith's and Hegel's accounts of the market helps to explain why we may have rather ambiguous intuitions about this topic: on the one hand, why would one ever *think* that markets could do this?—on the other hand, don't we have an implicit expectation that the free market provides an impartial judgment of people's achievements, giving everyone a chance to prove what they are able to do, evaluating not origin, gender, or eye colour, but performance? In the end, however, it will turn out that the conditions under which it would make sense to speak about deserved market outcomes are extremely demanding and unlikely to hold in many real-life contexts.

The discussion about justice and the market has become too broad and complex to summarize it here, so let me sketch only some of its main lines. The idea that markets somehow match achievement and desert has been under fire from thinkers who otherwise have very little in common. Among libertarians, the idea of applying *any* notion of 'social justice' to markets has been under attack at

<sup>4</sup> Cf. Miller, *Principles of Social Justice*, chap. VI, for a discussion of social scientific evidence.

<sup>5</sup> For an example in an academic context see N. Gregory Mankiw, 'Presidential Address: Spreading the Wealth Around: Reflections Inspired by Joe the Plumber', *Eastern Economic Journal* 36 (2010), 285–98. Mankiw indeed presupposes a very 'Smithian' picture of the market (which I discuss in section 5.2); in particular, he makes the idealizing assumption that individuals have the 'freedom to exit' from employment relationships (295).

<sup>6</sup> Cf. also Friedrich August von Hayek, *Law, Legislation and Liberty*, vol. 2: *The Mirage of Social Justice* (Chicago: University of Chicago Press, 1978), 74f.

<sup>7</sup> For an overview see Owen McLeod, 'Desert', in Edward N. Zalta (ed.), *The Stanford Encyclopedia of Philosophy* Winter 2008 edition [online] <<http://plato.stanford.edu/archives/win2008/entries/desert/>> (accessed 12 June 2012).

least since von Hayek.<sup>8</sup> From this perspective, the idea of asking about the justice of a distribution that results from market interactions is flawed from the outset, as such a distribution stems from voluntary exchanges, the resulting patterns of which are both unpredictable and indifferent from the point of view of justice. What matters is that the rules of the game are just<sup>9</sup>—that everyone has secure property rights, for example—and that there have been no violations of these rules in the history that led to the current distribution.<sup>10</sup>

From a leftist perspective, the idea of desert as applicable to market outcomes has been rejected for a different reason: many thinkers have argued that there is no fair starting point for measuring it, as agents do not have full control over the factors that could serve as bases for desert, such as their own productivity or even their own effort. Rawls famously bans the idea of meritocracy from *A Theory of Justice* because he takes it that talents and character as the basis of 'effort' are part of a 'natural lottery' and thus cannot be the basis of desert.<sup>11</sup> Brian Barry, building on extensive empirical research on the lack of equality of opportunity, takes the same line when he denounces the 'cult of personal responsibility'.<sup>12</sup> Serena Olsaretti, who provides the most thoroughgoing analytical discussion of the relation between markets and desert,<sup>13</sup> concludes by rejecting the idea that one could justify markets by appealing to a 'pre-institutional' notion of desert, one of her key arguments being that the 'fair opportunity requirement' for ascribing desert is almost never fulfilled.<sup>14</sup>

But the rejection of the notion of desert has not been unanimous. David Miller has recently argued *for* endorsing desert as a principle of social justice, holding that despite certain problems, labour market outcomes can be seen as a rough approximation of what people deserve for their contribution to the social whole.<sup>15</sup> Axel Honneth equally accepts the principle of desert in the market;<sup>16</sup> he and Miller do not take it to be the *only* principle of justice, but hold that it is appropriate for certain contexts, notably the distribution of jobs, and hence income.

The question about the applicability of the notion of desert to markets is thus a live issue in political theory. In order to reflect about it, it is helpful to clarify what picture of the market one has to presuppose in order to think about it in terms of desert. One minimal condition for this attempt should be noted straight away: one needs to assume, *pace* Rawls, that it makes sense to describe individuals' effort and strategic decisions as the results of responsible agency, rather than as being predetermined by external circumstances like genes or education, and to ascribe

<sup>8</sup> Cf. in particular von Hayek, *The Mirage of Social Justice*, chap. IX.

<sup>9</sup> von Hayek, *The Mirage of Social Justice*, 70.

<sup>10</sup> See Robert Nozick, *Anarchy, State, and Utopia* (New York: Basic Books, 1974), chap. II.

<sup>11</sup> Rawls, *A Theory of Justice*, 73f., 104.

<sup>12</sup> Brian Barry, *Why Social Justice Matters* (Cambridge: Polity, 2005), chap. IV.

<sup>13</sup> See Serena Olsaretti, *Liberty, Desert and the Market: A Philosophical Study* (Cambridge: Cambridge University Press, 2004), 9ff., for an overview of other contributions to this discussion.

<sup>14</sup> Olsaretti, *Liberty, Desert and the Market*, chap. III.

<sup>15</sup> Miller, *Principles of Social Justice*, chaps VIII–IX.

<sup>16</sup> Fraser and Honneth, *Redistribution or Recognition?* 137ff.

moral significance to them.<sup>17</sup> This, however, is an assumption we often make, especially in legal contexts, and, as will become clear below, certain assumptions about the structure of labour markets can underpin the thought that market outcomes largely depend on factors for which individuals can justly be held responsible. Comparing Smith's and Hegel's views of the market shows that a number of conditions need to be fulfilled to make sense of the idea that its results are deserved. It also shows that, ironically, libertarians are wrong to reject the notion of desert in markets in the name of Adam Smith; for Smith it is almost a metaphysical requirement that markets reward virtuous behaviour. His model can be seen as an important moment in the history of the idea that market outcomes can be described in terms of desert.

It is, in fact, the Hegelian account that accords with arguments by libertarians about the market as a place for voluntary exchange in which outcomes cannot be judged from the point of view of justice.<sup>18</sup> As we have seen, for Hegel the 'system of needs' is the sphere of subjective freedom, and hence also of 'caprice'. He refers to the 'arbitrariness and accident which this sphere contains',<sup>19</sup> and calls 'subjective opinion and the individual's arbitrary will' the 'essential and final determining factors' in the exchange economy.<sup>20</sup> One way in which subjective freedom is exercised is the free choice of consumption and investment. This implies that market prices are the result of the concurrence of two (or more) free wills, not limited by any inherent characteristics of goods or services or by any long-term tendencies of the market. External property is justified by the fact that human individuals need to 'translate [their] freedom into an external sphere',<sup>21</sup> and it is this free will that also determines whether, and for what price, things are up for sale and transferred to others through contracts.<sup>22</sup> As commentators point out,<sup>23</sup> this marks a stark contrast between Hegel and Marx: for Marx, market prices are determined by the relation of the values of goods, which stem from the amounts of labour they embody—this is the famous, or infamous, labour theory of value that forms the basis of his theory of exploitation.<sup>24</sup> For Hegel, in contrast, prices result exclusively from the free will of the market participants; there is no inherent

<sup>17</sup> Cf. Miller, *Principles of Social Justice*, chap. VII, for a defence of the notion of desert against this and other charges.

<sup>18</sup> The similarity of von Hayek and Hegel on the question of whether principles of social justice can be imposed on markets is also discussed by Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right*, 270.

<sup>19</sup> PR §200.

<sup>20</sup> PR §206.

<sup>21</sup> PR §41.

<sup>22</sup> PR §43, §65ff.

<sup>23</sup> E.g. Richard Dien Winfield, 'Hegel's Challenge to the Modern Economy', in William Maker (ed.), *Hegel on Economics and Freedom* (Macon, GA: Mercer University Press, 1987), 32–64.

<sup>24</sup> Karl Marx and Friedrich Engels, *Werke* (Berlin: Dietz, 1961), vol. 23, chap. VIIIff. It should be noted that Smith does not hold a labour theory of value either. In an 'early and rude state of society' the 'proportion between the quantities of labour necessary for acquiring different objects' determines the relation in which they are exchanged (cf. the famous example of the beaver and the deer in WN I.VI.1). But as soon as other factors of production such as land or capital are introduced, these simple proportions do not hold any more (WN I.V.5ff.); Smith does not condemn this as unjust exploitation, but rather sees it as part of the normal development in the 'progress of opulence' (WN I.V.5ff.).

'givenness' in things that would determine their value.<sup>25</sup> Market participants have the freedom to agree or disagree with a suggested price, to negotiate or to walk away, and they do not even have to reveal their underlying motives.<sup>26</sup> Exchanges in markets are thus really 'free' in the sense that they give people no prescriptions about how much, when, and where to buy and sell.

But the more this voluntarist element comes into a social system, the less we can speak of an ordered whole in which achievement and reward could be matched. If customers can walk away from a meritorious artisan simply out of 'caprice', or when fashions change,<sup>27</sup> his deserving behaviour might not get him any reward at all. If human needs were all natural and biological, free human will might not play this central role in the market process. Hegel is aware, however, that in a modern commercial society both human desires and the means for satisfying them are largely a human creation, so that 'man is concerned with his own opinion, indeed with an opinion which is universal, and with a necessity of his own making alone, instead of with an external necessity, an inner contingency, and mere caprice'.<sup>28</sup> This is, for Hegel, a liberating moment in human history.<sup>29</sup> But there is a price to be paid for it, namely the impossibility of finding any regularity that could establish patterns of desert in a system of free exchange.<sup>30</sup>

This emphasis on freedom in the market is shared by libertarian thinkers like von Hayek and Robert Nozick, who reject the idea that it makes sense to apply 'patterned' ideas of justice to the market. Rejecting the idea of desert, Nozick has made famous the example of basketball player Wilt Chamberlain, who earned high wages because his fans were happy to pay a premium for seeing him play. What could be wrong, Nozick asks, with Chamberlain's high income if it has come about entirely by voluntary transactions?<sup>31</sup> Why should we expect the market to 'care' at all about the resulting distribution? It is, after all, not an individual human being with benevolent intentions, but a complex social system.

On a Smithian view of the market, things look different; under certain conditions he might hold, indeed, that Chamberlain's high income is justified *precisely* because it is, in part at least, deserved. Smith certainly also values the freedom individuals have in the market. But his view of markets allows for the idea that they justly reward certain actions. The basic argument is that in markets the free decisions by a large number of individuals result in patterns that resemble the judgments of an impartial spectator, and that this impartial spectator makes

<sup>25</sup> Cf. Winfield, 'Hegel's Challenge to the Modern Economy', 45ff.

<sup>26</sup> Cf. Schmidt am Busch, '*Anerkennung*' als Prinzip der kritischen Theorie, 193ff.

<sup>27</sup> The phenomenon of changing fashions, and more broadly the human interest in features of goods that are irrelevant from a purely utilitarian point of view—colour, form, rarity—is also described in Smith (cf. TMS VI, LJ(A) 335ff.). Hegel might have taken over some of these reflections from Smith; as Waszek shows, however, his account is closer to Ferguson's (*The Scottish Enlightenment and Hegel's Account of 'Civil Society'*, 147ff.).

<sup>28</sup> PR §194, cf. also Griesheim, 492.

<sup>29</sup> PR §194.

<sup>30</sup> Hegel does say that 'political economy' tries to find general principles in the market sphere (PR §189), but his remark at the conclusion of this paragraph is telling: 'this is the field in which the Understanding with its subjective aims and moral fancies vents its discontent and moral frustration'. 'Moral frustration' might refer to the impossibility of seeing desert rewarded in this sphere.

<sup>31</sup> Nozick, *Anarchy, State, and Utopia*, 156ff., 161.

judgments based on an idea of desert: he holds that persons deserve certain rewards in virtue of having behaved in certain ways. Analysing this account helps to bring out some of the conditions for, as well as the limits of, applying the notion of desert to markets, and thus to get a clearer view of the conflicting intuitions we might have about desert in the market. Understanding Smith's argument, however, requires a detailed discussion of some features of his system.

Smith's system is pervaded by a strong sense that 'virtue pays':<sup>32</sup> behaviour that follows the dictates of the impartial spectator should be rewarded, and most of the time this will indeed happen. In the last edition of the *Theory* Smith adds a new book, 'Of the Character of Virtue', which discusses the 'character of the individual', 'so far as it affects his own happiness' and 'so far as it can affect the happiness of other people', as well as 'self-command', which is needed to follow the precepts of the other virtues.<sup>33</sup> In addition, numerous remarks on virtuous behaviour are scattered in the other books of the *Theory*. Smith's reflections on the virtues and their place in society have to be seen in the context of his optimistic deism; as he notes in one place, 'we may on this, as well as on many other occasions, admire the wisdom of God even in the weakness and folly of man'.<sup>34</sup> Although he vehemently rejects the idea of *reducing* the virtues to their usefulness for individuals or for society, this usefulness clearly exists for him: it 'stamps an additional beauty and propriety' upon the virtues.<sup>35</sup> For a well-ordered society it is important that most individuals, most of the time, behave according to these virtues, not in their highest form, which only a few wise and virtuous men attain, but in their everyday version, the standard that 'the actions of the greater part of men commonly arrive at'.<sup>36</sup> What makes this possible is that for Smith the virtues, at least in this everyday version, have a 'pull' of their own: virtuous behaviour is rewarded, not only in the hereafter, but also in very concrete, down-to-earth ways in this world.<sup>37</sup> Virtuous behaviour thus serves as the basis for claims about what people deserve, and the social world is structured such that they will usually receive it.

Not *every* virtue is rewarded in *every* part of life, however. In Smith's system there is an outright 'division of labour' in the way in which different virtues are rewarded in the different social spheres to which they belong. Virtuous behaviour with regard to one's family and friends, for example, is rewarded by being 'beloved, and to know that [one] deserve[s] to be beloved',<sup>38</sup> which is, for Smith, a central component of happiness.<sup>39</sup> Other virtues pay in the market. Adopting a term from Deirdre McCloskey,<sup>40</sup> these can be called the 'bourgeois virtues'; they include character traits like industry, frugality, and honesty in dealing with one's

<sup>32</sup> Haakonssen, *The Science of the Legislator*, 73.

<sup>33</sup> Cf. the chapter headings of book VI of TMS.

<sup>34</sup> TMS VI.III.30.

<sup>35</sup> TMS VII.II.2.13.

<sup>36</sup> TMS I.I.5.9.

<sup>37</sup> Cf. TMS VI.III.11.

<sup>38</sup> TMS III.I.7.

<sup>39</sup> TMS III.I.7.

<sup>40</sup> Deirdre McCloskey, *The Bourgeois Virtues: Ethics for an Age of Commerce* (Chicago, IL: University of Chicago Press, 2006). When reading Smith as a virtue ethicist ('Adam Smith, The Last of the Former Virtue Ethicists', *History of Political Economy* 40(1) (2008), 43–71), she applies the scheme of the seven cardinal and Christian virtues to Smith, which seems somewhat forced. For a more balanced

business partners. A central bourgeois virtue is prudence, the ‘care of the health, of the fortune, of the rank and reputation of the individual’.<sup>41</sup> Several commentators point out that the ‘prudent man’ of the *Theory* is the agent described in the *Wealth*.<sup>42</sup> An individual who behaves according to these virtues when pursuing his or her interests serves the good of society by fulfilling other people’s needs, and this can be seen as a basis for desert.

By holding that only some, not all, virtues are rewarded in the market,<sup>43</sup> Smith from the outset avoids a charge that has been raised by modern commentators: what markets reward is not desert in a highly moralized sense.<sup>44</sup> As authors such as Frank Knight and von Hayek have pointed out, what markets reward, if they reward anything at all, is not ‘ethical value or human significance’;<sup>45</sup> they may reward the supply of matches more highly than that of wisdom.<sup>46</sup> But for *markets* this is just the right thing to do, whereas wisdom or moral value can and should be rewarded in other spheres of life.<sup>47</sup> For Smith, however, moral desert, or higher virtue, is not the only form of virtue, and it is bourgeois virtue that can and should be rewarded in markets.

In his account of the reward of virtues, Smith has to make a crucial assumption, namely that human beings usually evaluate other people’s behaviour correctly, at least as a general rule. Smith evidently takes this to be the case: ‘[p]articular actions’ may be misjudged by others, but this is ‘scarce possible . . . with regard

discussion of the virtues in Smith see Ryan Patrick Hanley, *Adam Smith and the Character of Virtue* (New York: Cambridge University Press, 2009).

<sup>41</sup> TMS VI.I.5. For a discussion of the contrast between Smith’s theory of virtue and classical accounts see Christopher Berry, ‘Adam Smith and the Virtues of Commerce’, *NOMOS XXXIV*, *Virtue* (1992), 69–88.

<sup>42</sup> E.g. Raphael and Macfie, ‘Introduction’. In the last edition of TMS Smith distinguishes between ‘lower’ and ‘higher’ prudence; arguing that the former, ‘directed merely to the care of the health, of the fortune, and of the rank and reputation of the individual’, is ‘respectable’ and ‘in some degree’ ‘amiable and agreeable’, but is not ‘considered as one, either of the most endearing, or of the most ennobling of the virtues’. The latter only holds for ‘higher’ prudence, which is ‘the most perfect wisdom combined with the most perfect virtue’, which ‘necessarily supposes the utmost perfection of all the intellectual and of all the moral virtues’ (TMS VI.I.14f.; see Dickey, ‘Historicizing the “Adam Smith Problem”’, for a discussion of the development of Smith’s views on this issue and Lisa Herzog, ‘Higher and Lower Virtues in Commercial Society—Adam Smith and Motivation Crowding Out’, *Politics, Philosophy and Economics* 10(4) (2011), 370–95, for a discussion of the contemporary relevance of this point). ‘Higher’ prudence, however, has a distinctively political note, whereas ‘lower’ virtue clearly is a private virtue (cf. TMS VI.I.13, 15), and most men in a commercial society are private men who need precisely such virtue. On the meaning of private virtue in the Scottish Enlightenment see also John Dwyer, *Virtuous Discourse: Sensibility and Community in Eighteenth-Century Scotland* (Edinburgh: John Donald Publishers, 1987), chap. IV.

<sup>43</sup> He notes, however, that we often wish that ‘[m]agnanimity, generosity, and justice’ were ‘crowned with wealth, and power, and honours of every kind’—but these are the consequence of a different set of virtues, namely ‘prudence, industry, and application’, which means that if we compare an ‘industrious knave’ and an ‘indolent good man’ we wish for the latter to ‘live in plenty’, but the ‘natural course of things decides it in favour of the knave’ (TMS III.V.9).

<sup>44</sup> E.g. Rawls, *A Theory of Justice*, 310ff., Olsaretti, *Liberty, Desert and the Market*, 15ff., Miller, *Principles of Social Justice*, 134ff.

<sup>45</sup> Frank H. Knight, ‘The Ethics of Competition’, *The Quarterly Journal of Economics* 37(4) (1923), 579–624, 589.

<sup>46</sup> von Hayek, *The Mirage of Social Justice*, 76.

<sup>47</sup> Cf. also Miller, *Principles of Social Justice*, 180ff.

to the general tenor of [one's] conduct'.<sup>48</sup> A similar 'at large' correspondence also holds for the reward of the bourgeois virtues in markets:

If we consider the general rules by which external prosperity and adversity are commonly distributed in this life, we shall find, that notwithstanding the disorder in which all things appear to be in this world, yet even here every virtue naturally meets with its proper reward, with the recompense which is most fit to encourage and promote it . . . What is the reward most proper for encouraging industry, prudence, and circumspection? Success in every sort of business. And is it possible that in the whole of life these virtues should fail of attaining it? Wealth and external honours are their proper recompense, and the recompense which they can seldom fail of acquiring.<sup>49</sup>

The market economy thus rewards bourgeois virtue, which provides an incentive for people to behave accordingly, making them more orderly and decent.<sup>50</sup> At least this holds, according to Smith, for the 'middling and inferior stations' of society, where 'the road to virtue and that to fortune . . . are, happily in most cases, very nearly the same'.<sup>51</sup> It therefore suggests itself to assume that the Smithian labour market can be understood as just in the sense of giving everyone what he or she deserves. A word of caution, however, is needed with regard to the role of the notion of desert in this context.

Smith discusses this notion in Part II of the *Theory*.<sup>52</sup> He argues that it is based on an 'indirect sympathy with the gratitude of the person who is, if I may say so, acted upon',<sup>53</sup> which differentiates it from the notion of propriety, which stems from sympathy with the actor.<sup>54</sup> Someone deserves reward when he or she is 'the natural object of gratitude', as seen from the perspective of an impartial

<sup>48</sup> TMS III.V.8, cf. also VI.II.1.19 and VII.II.2.13.

<sup>49</sup> TMS III.V.8.

<sup>50</sup> This was in fact 'almost a commonplace' among the literati of the 18th century, shared not only by Hume but also by many other members of the Scottish Enlightenment (cf. Muller, *Adam Smith in His Time and Ours*, 95). The argument that 'virtue pays' is related to the 'doux commerce' doctrine about the milder 'interest' for material gain taming the more violent belligerent 'passions' (cf. Hirschman, *The Passions and the Interests*). To say that modern society offers incentives to be virtuous is the other side of the coin of saying that men's interests are channelled in socially useful ways. Muller calls this 'the institutional direction of the passions' (*Adam Smith in His Time and Ours*, 6, cf. also 135ff.), referring to Nathan Rosenberg's famous account of WN as providing 'details of the institutional structure which will best harmonize the individual's pursuit of his selfish interests with the broader interest of society' ('Some Institutional Aspects of the Wealth of Nations', *Journal of Political Economy* 18(6) (1960), 557–70, 559).

<sup>51</sup> TMS I.III.3.5. In the 'superior stations' of society this is not necessarily the case: in the 'courts of princes' and 'drawing-rooms of the great' success depends not on virtue, but on 'flattery and falsehood' and the 'ability to please' (TMS I.III.3.6, cf. Hanley, *Adam Smith and the Character of Virtue*, 41, for a discussion of the court as a 'corrupt society' in which 'advancement and merit have been separated'). The reason Smith gives for this is telling: there, 'success and preferment' depend 'not upon the esteem of intelligent and well-informed equals, but upon the fanciful and foolish favour of ignorant, presumptuous, and proud superiors' (TMS I.III.3.6). This is a situation in which no impartial judgment is present, and so we cannot expect the results to be just in the sense that virtue is rewarded (cf. hereafter).

<sup>52</sup> It is entitled 'Of MERIT and DEMERIT; or, of the Objects of REWARD and PUNISHMENT', but Smith's usage makes clear that he uses the terms 'merit' and 'desert' (sometimes also 'good desert') interchangeably (cf. e.g. II.I.2, II.V.3).

<sup>53</sup> TMS II.I.5.1.

<sup>54</sup> TMS II.I.5.1.

spectator.<sup>55</sup> In parallel, demerit or ill-desert, the basis for deserving punishment, can be recognized by a feeling of resentment in an impartial spectator.<sup>56</sup>

Although Smith emphasizes that gratitude and resentment are ‘counterparts to one another’,<sup>57</sup> his notion of *justice* relies exclusively on the latter. Justice consists in not violating the rights of others; it is a ‘negative virtue’ that can often be fulfilled by ‘sitting still and doing nothing’.<sup>58</sup> Beneficence and gratitude, in contrast, are positive virtues which people can expect from one another, but have no right to enforce.<sup>59</sup> This asymmetry between gratitude and resentment implies that when one speaks of desert with regard to the market, what is at stake for Smith is not a matter of rights and their enforcement. It is a rather a question of the structural features of the system being such that desirable behaviour is *de facto* rewarded. In a well-ordered Smithian market, people who practise the bourgeois virtues can *expect* to be successful in their professional lives, but they cannot claim a *right* to being rewarded merely on the basis of desert, unless some right has been fixed contractually. Desert is thus, for Smith, not a legal category; it rather describes the ways in which people—and, as I will discuss shortly, the market—*should* react to certain kinds of behaviour: as he says, some actions ‘demand, and, if I may say so . . . call aloud for a proportionable recompense’.<sup>60</sup>

The idea that markets should, and do, reward virtue is powerful in Smith’s thinking, and analysing how he underpins this claim can help us to understand how the idea that market outcomes have something to do with desert could ever have developed. For this purpose, it is worth emphasizing two socio-economic features of the Smithian commercial society that distinguish it from earlier feudal societies. In a well-ordered commercial society, everyone has property rights that can be enforced by law; these form the legal basis for all claims about the rewards of the bourgeois virtues. In an impartial legal system, industry and parsimony are ‘rewarded’ simply as a matter of commutative justice: those who offer more in the market get more in return,<sup>61</sup> and those who spend less in the present can enjoy the fruits of this virtue in the future. With secure property rights, it makes sense for people to focus on their long-term interest rather than indulge in short-lived pleasures, while the latter is in fact the most reasonable thing to do if one might at any moment be robbed of one’s possessions by criminals or by a greedy landlord. Income and wealth that are the result of the practice of ‘industry’ and ‘parsimony’ can thus be justified by pointing to a person’s (past) behaviour, whereas poverty that is the result of the *inability* to enforce one’s rights is clearly unjust.

A second characteristic feature of a market society is that people stand ‘at all times in need of the co-operation and assistance of great multitudes’.<sup>62</sup> As there is legal equality, they have to awaken other people’s interests to do so, rather than compel them by force. They need to find customers and suppliers, employees and colleagues, and treat them in ways that make successful business relations

<sup>55</sup> TMS II.I.2.2f.

<sup>56</sup> TMS II.I.2.2f.

<sup>57</sup> TMS II.I.5.7.

<sup>58</sup> TMS II.I.1.9.

<sup>59</sup> TMS II.I.1.3, II.I.1.7.

<sup>60</sup> TMS II.I.4.2.

<sup>61</sup> In contrast, Hegel holds in the Jena manuscripts that this is *not* the case: when workers work more, the value of labour sinks (*Jenenser Realphilosophie II*, 138), presumably because the value of a good in the market is determined by its relative scarcity. This argument does not hold in a growing economy, which is Smith’s optimistic scenario.

<sup>62</sup> WN I.II.2.



possible. This, however, forces them to put themselves into other people's shoes, assuming their point of view and reflecting on how best to meet their needs, which has a disciplining effect: 'the fear of losing their employment . . . restrains [the workman's] frauds and corrects his negligence'.<sup>63</sup> When the members of the 'middling and inferior stations' of society enter the market, they are judged by equals: their success 'almost always depends upon the favour and good opinion of their neighbours and equals; and without a tolerably regular conduct these can very seldom be obtained'.<sup>64</sup> The local customers can tell quite well how the butcher, brewer or baker behaves, and can take into account their character in deciding where to buy and with whom to cooperate.<sup>65</sup> It is thus important for people to develop a reputation as reliable and honest. Smith holds that when 'dealings are frequent', it is in men's 'real interest' to stick to 'probity and punctuality'; this will, in the long run, lead to higher gains than giving 'any ground for suspicion'.<sup>66</sup> A dealer is therefore 'afraid of losing his character, and is scrupulous in observing every engagement'.<sup>67</sup> The greater economic success of a more 'scrupulous' and reliable dealer can thus be understood as a reward for practising these bourgeois virtues that an impartial spectator would wish him to receive.

In a perfectly competitive market in which all participants have an equal legal standing it does not go too far to say that those who offer something are seen by others from an impartial perspective, so that the rewards they receive resemble judgments by an impartial spectator. Some may evaluate certain features too highly, and others too lowly, but on average—and this is what the market price provides—these judgments get it right.<sup>68</sup> Or so Smith's argument seems to work.

An objection presents itself, however. Markets are determined by anonymous forces of supply and demand that seem to have nothing to do with the responsible agency of individual persons. How can these forces reward virtuous behaviour? What happens, for example, if a competitor enters a market, pushing down the wages and profits of those previously employed in a certain business?<sup>69</sup> Would

<sup>63</sup> WN I.X.II.31. This disciplining effect of the market is the source of Joseph Cropsey's claim that Smith wants to replace virtue by self-interest (*Polity and Political Economy: An Interpretation of the Principles of Adam Smith* (The Hague: Nijhoff, 1957)). Rather than saying that in Smith self-interest replaces virtue, however, it is more correct to say that self-interest can, in a good institutional framework, support virtue. For a discussion see also Fleischacker, *On Adam Smith's Wealth of Nations*, 101ff.

<sup>64</sup> WN I.X.II.31. The ability of the market to teach people to be 'other-directed' is also emphasized in Fleischacker, *A Third Concept of Liberty*, 155.

<sup>65</sup> Interestingly, in the quote on the 'industrious knave' and the 'indolent good man' (TMS III.V.9, cf. n. 43 of this chapter), Smith speaks about 'cultivat[ing] the soil', not about dealing with customers and cooperating with other people—in dealing with *human beings* it might be much harder for the 'industrious knave' to be successful.

<sup>66</sup> LJ(B) 539.

<sup>67</sup> LJ(B) 538.

<sup>68</sup> The parallel between the impartial spectator mechanism and the price mechanism has been noted repeatedly in Smith scholarship; the most detailed discussion is provided by Otteson, *Adam Smith and the Marketplace of Life*, who sees the 'market principle' as active not only in the formation of social norms, but also in other phenomena, e.g. the development of language (cf. also n. 75 in chap. 2 of this volume).

<sup>69</sup> Cf. Olsaretti's discussion of this point; she reads it as an argument *against* the applicability of the notion of desert to markets (*Liberty, Desert and the Market*, 70ff.).

this not be a reduction of the reward for virtue that an impartial spectator could not accept?

But Smith's theory of the price mechanism provides an argument as to why this scenario will not occur. If the market price is either lower or higher than the 'natural price'—the price that pays for the wages, rent, and profit which are 'ordinary' in a certain region<sup>70</sup>—some producers will enter into, or leave, the market, and thus the amount of goods will adjust itself to the quantity at which the natural price is reached.<sup>71</sup> Those who have worked virtuously in a certain industry and are threatened by increased competition would, on a Smithian account, simply switch into other kinds of employment, where their industry and honesty continue to be rewarded. The natural price is thus one which an impartial spectator can endorse, and *if* there is full flexibility in markets, this is the price the market price 'gravitates' towards.<sup>72</sup>

The market process also balances out the net advantages of different jobs and investments. In his theory of relative wages, Smith argues that in free markets differential wages reflect differences in the non-monetary characteristics of jobs, because otherwise people would leave one employment and crowd into another one:

The whole of the advantages and disadvantages of the different employments of labour and stock must, in the same neighbourhood, be either perfectly equal or continually tending to equality. If in the same neighbourhood, there was any employment evidently either more or less advantageous than the rest, so many people would crowd into it in the one case, and so many would desert it in the other, that its advantages would soon return to the level of other employments.<sup>73</sup>

These net advantages include non-material factors such as 'the agreeableness or disagreeableness of the employment', the costs involved in learning a profession, the 'constancy or inconstancy of employment', the degree of 'trust which must be reposed in those who exercise them', and the 'probability or improbability of success'.<sup>74</sup> The market, thanks to the individuals' arbitration, thus creates equality of *net* advantages, which include monetary as well as non-monetary elements.<sup>75</sup>

<sup>70</sup> WN I.VII.1ff., cf. LJ(A) 357ff. What is 'ordinary' is determined by the long-term development of a society—the relevant case is that of a growing society, cf. chap 2.5—and the differences between jobs, which are discussed hereafter.

<sup>71</sup> Cf. chap. 2.5.

<sup>72</sup> WN I.VII.1ff., cf. LJ(A) 357ff. This implies that market prices can be called just in the sense of commutative justice, as Jeffrey T. Young and Barry Gordon have pointed out, connecting Smith to the 'just price' tradition in scholastic social thought ('Natural Price and Commutative Justice: Adam Smith and the Just Price Traditions', chap. V of Young, *Economics as a Moral Science*).

<sup>73</sup> WN I.X.1.

<sup>74</sup> WN I.X.I.1. Similar considerations play a role for differences in profit, see WN I.X.I.34. For a contemporary discussion of the market's tendency to equalize net profit rates see e.g. Johannes Berger, *Der diskrete Charme des Marktes: Zur sozialen Problematik der Marktwirtschaft* (Wiesbaden: VS Verlag, 2009), chap. III.

<sup>75</sup> As Berger notes, this kind of equality is also the background assumption in the theory of human capital as pioneered by Jacob Mincer: in equilibrium, the lifetime income of educated and uneducated workers is assumed to be the same. Education is more costly first, but leads to higher incomes later on; but the assumption is that it does *not* leave the well-educated better off *overall* (*Der diskrete Charme des Marktes*, 75f.).

Smith calls the differences that result from these factors ‘natural’,<sup>76</sup> and they can also be called ‘deserved’ in the sense described above: they are compensations for non-monetary costs or benefits linked to different activities. An impartial spectator can fully endorse the ‘premium for being a steeplejack or an embalmer or working on the night shift’.<sup>77</sup>

If this holds, there are indeed patterns in market outcomes that can be related to desert. This idea has been taken up by modern theorists who hold that market outcomes are justified as deserved. Often, this is expressed in the—more formal—idea that market wages reflect marginal productivity, which is similar in structure: it holds that wages are deserved if they roughly express the additional output of one additional worker.<sup>78</sup> Even Nozick, a strong opponent of the idea of desert, admits that in such a situation ‘heavy strands of patterns’ will appear in market outcomes.<sup>79</sup> He argues, however, that there are also other forms of income in a market society: gifts, inheritances, or lottery wins cannot be ascribed to desert. Smith and other desert theorists would certainly not deny this. But the existence of these incomes provides no argument against the *labour market’s* ability to reward virtue.<sup>80</sup> The scope of the principle that ‘virtue pays’ is limited to those who actually practise the virtues; someone who simply *is* rich and does not show any active engagement does not fall under it.<sup>81</sup> It is telling that modern discussions of desert in the market usually restrict themselves to labour income; to apply the underlying idea to *all* aspects of distribution in a market society would not make

<sup>76</sup> He contrasts them with the inequalities that are ‘occasioned by the Policy of Europe’, which he condemns sharply (WN I.X.II).

<sup>77</sup> Arthur M. Okun, *Equality and Efficiency: The Big Tradeoff* (Washington, DC: Brookings Institution Press, 1975), 72, who endorses this point. There is an additional problem in this context: differences between professions might be specific to different cultures. Smith notes that ‘players, opera-singers, opera-dancers, &c.’ receive a higher remuneration not only because of the rarity of their talents, but also because these professions are publicly despised so that wages need to be higher in compensation (WN I.VIII.I.25), a statement that depends very much on the cultural norms of his time. More generally, different evaluations may depend on normatively problematic traditions, e.g. traditional gender stereotypes (cf. also Fraser and Honneth, *Redistribution or Recognition?* 140ff.). Often, however, this will have to do with imbalances of power, which are discussed as a more general problem for the application of the notion of desert to the market hereafter.

<sup>78</sup> Cf. e.g. Miller, *Principles of Social Justice*, 8f., Nozick, *Anarchy, State, and Utopia*, chap. II. Smith himself does not have a theory of marginal productivity determining wages (cf. e.g. E. H. Phelps Brown, ‘The Labour Market’, in Thomas Wilson and Andrew S. Skinner (eds.), *The Market and the State: Essays in Honour of Adam Smith* (Oxford: Clarendon Press, 1976), 243–59, 254). He simply holds that the market produces wages that an impartial spectator could endorse. Given, however, that his argument depends on people’s adaptive behaviour, which concerns decisions *at the margin*, there clearly is a structural similarity. The conditions for the applicability of the Smithian model also hold for marginal productivity theory; the additional assumptions (and problems) of marginal productivity theory cannot be discussed here. See e.g. Sen, ‘The Moral Standing of the Market’, 15ff. on the problem of joint production and the distinction between persons and factors of production.

<sup>79</sup> Nozick, *Anarchy, State, and Utopia*, 157.

<sup>80</sup> The notion of ‘labour market’ here includes independent artisans and workmen who sell the product of their labour directly. The assumption is that all wages are determined by the market, *not* by different logics such as hierarchy, status, or age that might determine wages *within* companies. For a discussion of this problem see Miller, *Principles of Social Justice*, 181.

<sup>81</sup> *Maintaining* a stock of capital could also be a basis for desert, insofar as it presupposes active management and prudent usage of one’s resources.

sense.<sup>82</sup> The existence of undeserved forms of income and wealth requires a separate discussion, and means that one cannot simply infer from the fact that a person is rich or poor that this is deserved—one needs to know more in order to judge whether he or she deserves what he or she possesses as a reward for having practised the bourgeois virtues.<sup>83</sup> The ‘great mob of mankind’ may admire ‘wealth and greatness’ without asking this question, Smith holds,<sup>84</sup> but an impartial spectator can see the differences, for example, between someone who has worked hard all his life and someone who has won the jackpot in a lottery or inherited a fortune.<sup>85</sup>

This is an optimistic view, and it seems that those who defend the notion of desert as applicable to markets—such as Miller, Honneth, or Nozick to the degree that he admits ‘patterns’—have this view in mind. It should be made clear, however, that Smith relies on a number of rather problematic assumptions about the structure of the labour market; these must also hold, in addition to further assumptions, if the idea that wages mirror marginal productivity is to make sense. To invoke the parallel between the judgments of an impartial spectator and market outcomes presupposes that markets are ‘impartial’ in a particular sense: individuals must be free to decide between options whenever they like. In the labour market this means that they must be able to switch employers whenever they deem it appropriate. As has been discussed in the preceding chapter, this not only presupposes that there are enough options to choose from, but also that the workers’ human capital is flexible enough to be used in different jobs. Smith explicitly notes that the equalization of net advantages only comes about ‘where every man [is] perfectly free both to chuse what occupation he [thinks] proper, and to change it as often as he [thinks] proper’.<sup>86</sup>

If markets are flexible, individuals can leave situations in which they are exploited or treated in morally problematic ways, and the consciousness of this fact will often prevent others from doing this. Assume that in a free market the baker from whom people buy their bread abuses and exploits his apprentice in order to raise his profits. Two things will happen: the apprentice will look for another employer (and maybe sue the baker, if he has violated rules of justice), and the people in the neighbourhood, who are outraged at the baker’s behaviour, will buy their bread from his competitor. This gives the baker incentives to treat his employees with respect in the first place. In such a situation, the baker cannot

<sup>82</sup> This applies to Miller’s and Olsaretti’s accounts.

<sup>83</sup> Smith’s reservations about the relation between virtue and achievement in the ‘superior stations’ of society (cf. n. 51 of this chapter) might be connected to the fact that with an inherited fortune one has fewer incentives to be virtuous.

<sup>84</sup> TMS I.III.3.2.

<sup>85</sup> Except for celebrities, these life stories will usually only be known to a small circle of friends and colleagues. In this sense, desert might be honoured (although not necessarily rewarded in monetary terms) even in the Hegelian economy, namely by one’s colleagues in the corporation who are able to evaluate the achievements of different workers (cf. Schmidt am Busch, ‘*Anerkennung*’ als Prinzip der kritischen Theorie, 237ff.). Cf. also von Hayek, *The Mirage of Social Justice*, 90, who similarly holds that his picture of the market does not rule out the notion of desert in the context of small groups.

<sup>86</sup> WN I.X.1. The contrast is with the situation in Europe, where these changes are prevented by numerous laws and regulations, *not* with a Hegelian market in which people are tied to particular jobs because of the specificity of their human capital and its meaning for their identity (cf. chapter 4.3 of this volume).

earn more by exploiting the apprentice—whereas this may well be the case if the apprentice is completely dependent on him and the customers side with the baker, because the apprentice does not possess full legal standing, and thus is not seen as ‘one of them’.<sup>87</sup> In the second scenario, it is the *obstruction* of the free play of market forces, for example, through apprenticeship regulations, that leads to situations in which virtue is *not* rewarded; income that is earned in this way *cannot* be said to be deserved.

The flexibility of human capital also reduces the influence of luck on market outcomes. Smith is well aware that the market price gravitates towards the natural price only ‘in the ordinary’;<sup>88</sup> sometimes extraordinary events distort prices. But if individuals are flexible and can move from one job to another, this is less likely to concern them: they may be lucky in one job, and unlucky in another, but on average, virtuous behaviour will pay more than vicious behaviour.<sup>89</sup> Under such circumstances it is also quite plausible that market outcomes depend on factors that human beings can control and be held responsible for, such as effort and choice, rather than inherited talents and chance—as mentioned above, this is the great worry of many leftist critics of the notion of desert. Smith does not address this problem, but one can see why for him it is not as urgent as it may be today. First, he thinks that people are by nature very equal,<sup>90</sup> and by arguing that the state should provide basic education for all, he makes sure that no one is left behind without acquiring the basic abilities—reading, writing, and accounting<sup>91</sup>—that one needs in commercial society. Secondly, insofar as he assumes that human capital can easily be acquired and that people can switch between jobs, choice and effort do indeed play a great role in determining their success. To invest one’s monetary and human capital in the right ways is part of what the market rewards—and in Smith’s account this is a continuous process over the course of one’s adult life, so that it seems quite plausible that people can to a large degree be held responsible for it.<sup>92</sup>

This harmonious picture is threatened, however, when the market is less-than-perfectly competitive, and in particular when there are imbalances of power

<sup>87</sup> Cf. in particular Rothschild (*Economic Sentiments*, 27) on how a free market society abolishes the ‘petty and personal despotism’ that can occur in relations of personal dependence without legal bases. Cf. also Berger (*Der diskrete Charme des Marktes*, 51), who holds that ‘power, discrimination, oppression and exploitation’ have no place in perfect markets, but rather in families, companies, or the political sphere (own translation).

<sup>88</sup> WN I.VIII.I.44.

<sup>89</sup> Even so, however, Smith was aware that no human society could ever *precisely* match virtues and rewards. Ultimate justice—punishment for injustices and reward for virtue—can only be hoped for in the hereafter (TMS II.II.3.12, III.II.12). Smith’s hope for true justice in the hereafter should not be mistaken for a Feuerbachian consolation for those whose life is a failure: Smith emphasizes that it is ‘not only by the weaknesses, by the hopes and fears of human nature, but by the noblest and best principles which belong to it, by the love of virtue, and by the abhorrence of vice and injustice’ that we are led to believe in a future state (TMS III.V.10; for a discussion of the parallels to Kant see Lindgren, *The Social Philosophy of Adam Smith*, chap. VII).

<sup>90</sup> Cf. chapter 4.3 of this volume.

<sup>91</sup> WN V.I.III.II.16.

<sup>92</sup> Cf. also Miller, *Principles of Social Justice*, 145, who holds that ‘[d]esert is strengthened when opportunities to become deserving themselves depend on the initiative and choice of individuals, and are not artificially distributed by some other human agency’.

between different parties. Smith himself discusses this problem with regard to the relation between employers and employees in wage negotiations.<sup>93</sup> The employers can hold out longer without the workers than the other way round; in addition, they can ‘combine much more easily’, as they are fewer in number and often have the law on their side.<sup>94</sup> Wages are thus determined not by the free play of market forces, but by the ‘bargaining power’ of the different parties.<sup>95</sup> It should be clear, however, that prices that have come about in this way can hardly be seen as embodying the judgment of an impartial spectator—or, for that matter, marginal productivity. The picture Smith draws of these wage negotiations is more akin to the relations between feudal lords and their dependants than to the ‘haggling and bargaining’ of a free market. More generally, whenever there is one-sided power that distorts prices—and this might be the rule rather than the exception in today’s markets—market outcomes cannot be justified as rewards for virtue along the line pursued here.<sup>96</sup>

In the Smithian market, the pressure on workers is considerably diminished, however, if the employers have to compete for labourers as much as the workers for jobs. This is the case in a growing economy, as for example the American colonies of Smith’s day.<sup>97</sup> If the workers have a meaningful<sup>98</sup> choice between different options, the wage-setting mechanism becomes more similar to the judgment of an impartial spectator than when they are forced, by sheer necessity, to take the first offer they can get, or when the employers conspire to lower wages.

The Hegelian market is completely different in this respect. As we have seen, his Dionysian picture of the market makes it problematic to search for *any* orderly patterns in the economic realm. The decisive factor is, however, that Hegel’s individuals do *not* have the broad choice between different occupations that Smith assumes them to have. In the Hegelian account, people are caught in one

<sup>93</sup> WN I.VIII.12. In these passages it is obvious that he writes before the time of labour unions, which makes a direct application to today’s world problematic. But on a structural level, his arguments apply to any imbalances of power between different groups in markets.

<sup>94</sup> Cf. also WN I.XI.Concl.9ff. on the differences in the ability of these groups to influence the legislator in their favour.

<sup>95</sup> Cropsey, *Polity and Political Economy*, 75.

<sup>96</sup> For a discussion of the contemporary relevance of this problem, in particular in the form of voluntary bondage, child labour, and debt peonage, see Debra Satz, ‘Liberalism, Economic Freedom, and the Limits of Markets’, *Social Philosophy and Policy* 24(1) (2007), 120–40, who emphasizes that Smith saw the problem of unequal power in labour markets in a much more differentiated way than many other classical liberal thinkers and mainstream economists. The problem is related to (though not identical with) a problem about desert and the market recently raised by Teun J. Dekker (‘Desert, Democracy, and Consumer Surplus’, *Politics, Philosophy and Economics* 9(3) (2010), 315–38), Dekker argues that the existence of consumer surpluses means that the market does not reflect the democratic appraisal of what goods are worth, and that an average valuation would lead to more just results. The deviation of market prices from an average valuation can be caused by unequal market power, as it can change the supply function. But consumer surplus (and indeed producer surplus!) can also stem from the fact that individuals have heterogeneous preferences. For his model to work, Smith must assume that these are balanced out in the long run so that, in Dekker’s terms, the ‘net consumer surplus’ disappears.

<sup>97</sup> WN I.VIII.22.

<sup>98</sup> I.e. not only equally bad options, for example to be exploited in either this or that factory.

profession, which makes them vulnerable to the caprice of others.<sup>99</sup> They make a once-for-all decision which profession to choose and it is clear that their family background, as well as good or bad luck, can have a great influence on it<sup>100</sup>—but in contrast to the Smithian individuals they cannot liberate themselves from it by choosing a different position later in life. It is thus the combination of subjective freedom in *consumption and investment*, and less-than-perfect freedom in people's choices of *occupations*, that leads to a situation in which ascriptions of desert in the market become extremely problematic.

Subjective freedom, however, is itself an important value. For Hegel, there is thus an inevitable tension between the market as a realm of subjective freedom and the idea that it could reward virtue. If *all* citizens were *always* free to change jobs whenever they liked, this problem could be circumvented. But as this is hardly ever the case, this is a very real tension. Both principles, subjective freedom *and* the idea that income should track desert in some sense, are key elements of the vision of a modern society, and as such they still have considerable force. For Hegel and Smith, they have a deep, even metaphysical, dimension that supports the claims they make about the superiority of modern society.

As we have seen,<sup>101</sup> for Hegel the question of how to integrate subjective freedom into a social whole without undermining it is *the* question of modern society. For Smith, on the other hand, the question of the just reward for virtue is central for the construction of his whole system.<sup>102</sup> Commercial society is, for Smith, the *natural* order of the social cosmos; this is expressed, in particular, in the legal equality of all citizens that corresponds to the perspective of the impartial spectator. It *does* admit differences in wealth and rank—but these have to be distributed in ways that can be endorsed by an impartial spectator. The above-average rewards must go to those whose behaviour supports and stabilizes the social order, that is, those who live virtuously; or at least they must *also* go to the virtuous, in addition to inherited fortunes and instances of pure luck. If this were not the case, if all prizes went to the most vicious, the social order would undermine exactly those character traits of its citizens that it relies on for a peaceful and flourishing existence. Moreover, if the market systematically led to the flourishing of the vicious and the decay of the virtuous, it could not be seen as just, and this would make it difficult to describe its creator as benevolent. So for Smith it is a requirement almost at the level of a theodicy that in commercial society 'virtue pays', at least for most people, most of the time, in the long run. For Hegel, in contrast, the theodicy lies in understanding that world-history, with all

<sup>99</sup> Cf. also Miller, *Principles of Social Justice*, 133ff., who argues that for the notion of desert to be applicable, actions must not be coerced or manipulated. It depends on someone's notion of coercion whether economic necessities count as coercion, but on the Hegelian picture, this is quite plausible.

<sup>100</sup> Olsaretti in fact discusses this example—the choice to train in a certain profession—as one of the ways in which luck enters the market process and destroys the applicability of the notion of desert (*Liberty, Desert and the Market*, 73).

<sup>101</sup> Cf. chapter 3.4–5 of this volume.

<sup>102</sup> How much Smith cared about this principle can be seen from a letter to Edmund Burke written in 1783, in which he congratulated him on his appointment as Paymaster General, writing: 'it gives me . . . great satisfaction to see, that what was so agreeable to the highest principles of honour may in the end prove not inconsistent with interest' (Corr. #226, cf. also Hanley, *Adam Smith and the Character of Virtue*, 126f., for a discussion).

its injustices and cruelties, is the development of *freedom*. Just as people and civilizations have to be sacrificed on the path to freedom, the principle of subjective freedom is so central that concerns about justice in commercial society have to be sacrificed to it.

These findings leave us in a dilemma. The idea that markets should reward certain forms of behaviour rather than others is immensely powerful—but can we still make sense of the Smithian model today? Or is the market such that *if* we want to preserve it as a space for subjective freedom, we have to give up the notion of desert? This question, as well as some broader reflections on the role of the notion of desert in the market, will be taken up in the conclusion. Before, however, a second aspect of the question of social justice, the problem of poverty and social exclusion, needs to be addressed.

### 5.3 WHAT ABOUT THE POOR?

Arguments for social justice are often voiced out of a concern for the poor. This is particularly plausible when one holds that markets do *not* reward desert, or that desert is not a normatively relevant category at all. But even when one thinks that a notion of desert can, with qualifications, play a role in markets, this is not incompatible with worrying about the market's effects on the worst-off, either because one holds that not *all* poverty is deserved (and maybe we cannot tell the difference), or because one holds that poverty should be alleviated, whether deserved or not. The question is, however, how exactly the problem of poverty relates to the market. The discussion I provide in this section focusses on two aspects of this issue: on the one hand, not all kinds of poverty and social exclusion can be ascribed to the *market*; on the other hand, it depends on one's view of the market whether it is seen as a panacea for, or a threat to, the poor.

Often, social exclusion and poverty hit certain social groups particularly hard, for example, racial or religious minorities, and this kind of discrimination is sometimes imputed to the market. One has to ask, however, in what sense the market could be responsible for it. It is helpful to distinguish between the market in the sense of a set of formal rules and institutions, and the market participants' *choices* within this framework—as we shall see, the market in the former sense can eventually even work *against* such discrimination.

As has been emphasized, for Smith and Hegel the market functions against a background of equal rights, which protect *everyone's* person and property.<sup>103</sup> The Smithian sovereign owes 'justice and equality of treatment' to 'all the different orders of his subjects'.<sup>104</sup> For Hegel, 'abstract right' protects all citizens equally: 'a man counts as a man because he is a human being, not because he is a Jew, Catholic, Protestant, German, Italian, &c'.<sup>105</sup> Thus, in the market individuals meet

<sup>103</sup> Unless, that is, some groups are not even given legal equality; in this case, however, the problems run much deeper and cannot be imputed to the market alone.

<sup>104</sup> WN IV.VIII.30.

<sup>105</sup> PR §209, translation changed; cf. Enc §488, §539. Cf. Ritter, *Hegel and the French Revolution*, 76ff., for a discussion that connects this topic to Hegel's views of the French Revolution.



as persons with equal rights who need to recognize each other as such in order to enter into reciprocal exchange relationships.<sup>106</sup> Moreover, these equal rights are the *only* rights that play a role in the market. One might expect, therefore, that market interactions can help to grind down inequalities that result from *other* factors, such as race, gender, or religion, which are irrelevant for one's ability to trade in the market. After all, social relations in a market society are fluid, and such differences cannot be cemented by legal protection.<sup>107</sup> In Smith, we find a strong sense that those who have arrived at a position of wealth are not—or should not be—able to secure it against the forces of the market.<sup>108</sup> If this is the case, markets not only presuppose legal equality, and thus the negative liberty of all, but might also *strengthen* it.<sup>109</sup>

However, the power of the market to strengthen equality should not be overestimated, and Smith is quite aware of this. For one thing, the challenge to maintain legal equality in the face of large inequalities of wealth and income is considerable, as the pressures by those who are *economically* powerful on those who are *politically* powerful—and thus should take on an impartial perspective—can be immense, as can be the temptations for those in political power to abuse it in order to improve their economic position.<sup>110</sup> When this happens, rather than strengthening legal equality, the market and the inequalities it creates undermine it.

As a matter of fact, market economies have co-existed with blatant discrimination of minorities. The relations between economic motives and racial prejudices have even been turned into a whole research programme on the 'economics of discrimination', spearheaded by Gary S. Becker.<sup>111</sup> It deals not so much with the legal framework of the market, but with the preferences of market participants. Becker shows that there can be a 'taste' for discrimination, and that people may even be willing to accept material disadvantages in order to nurture it.<sup>112</sup> This shows that the assumption that people are interested only in material gain is problematic even in cases in which this might actually lead to beneficial outcomes.

<sup>106</sup> For a discussion of exchange as a 'form of reciprocally recognizing, second-person interaction' in Smith see Darwall, 'Equal Dignity in Adam Smith', 133; cf. also Thomas J. Lewis, 'Persuasion, Domination and Exchange: Adam Smith on the Political Consequences of Markets', *Canadian Journal of Political Science/Revue canadienne de science politique* 33(2) (2000), 273–89, who contrasts the egalitarian ethos of exchange with the domination and dependence of feudal society. Hegel emphasizes the equality of men in civil society who encounter each other in reciprocal relations in which they are all 'being recognized' in PR §192.

<sup>107</sup> Cf. in particular Young, *Economics as a Moral Science*, 139f.

<sup>108</sup> He argues that in 'commercial countries' (in contrast to feudal societies) it is unlikely that families stay rich for very long, as in some generation or other some profligate will squander the money and the families have no means of cementing their position through legal regulations (WN III.IX.16).

<sup>109</sup> Cf section 6.4 of this volume.

<sup>110</sup> Cf. section 2.5 of this volume.

<sup>111</sup> Gary S. Becker, *The Economics of Discrimination* (Chicago: University of Chicago Press, 1957).

<sup>112</sup> A similar phenomenon is discussed by Smith: the case of the 'colliers and salters' in Scotland, who were paid higher wages than the colliers elsewhere, but suffered from considerable restrictions on their liberty. Smith argues that it is the 'love of domination and authority over others, which I am afraid is naturall to mankind', which makes the employers accept having to pay higher wages rather than giving the workers full liberty and paying lower wages (LJ(A) 192, cf. Lewis, 'Persuasion, Domination and Exchange', 285f., for a discussion).

In order to address problems of ethnic or religious discrimination, it is thus important to distinguish the cause of this kind of inequality—people's 'taste' for discrimination—from inequalities caused by the market as such; the market can *perpetuate* inequalities based on discriminatory choices, but if its framework is just, it does not *cause* them.

Within a framework of equal laws, however, commercial society allows massive inequalities of income and wealth. As Hegel notes, from the point of view of the law, 'what and how much I possess . . . is a matter of indifference'.<sup>113</sup> The question we need to address, therefore, is how the market affects the distribution of income *within* this set of equal rights. Smith's and Hegel's views of the market vary widely with regard to this question.

For Smith, the economic growth of commercial society is a tide that lifts all boats, and creates unprecedented wealth even for those in the lowest echelons of society:

The accommodation of a European prince does not always so much exceed that of an industrious and frugal peasant, as the accommodation of the latter exceeds that of many an African king, the absolute master of the lives and liberties of ten thousand naked savages.<sup>114</sup>

This 'paradox of civil society'<sup>115</sup> can already be found in Locke's *Second Treatise*,<sup>116</sup> and many 18th-century writers mused about it.<sup>117</sup> What particularly strikes Smith is that the poor members of commercial society are better off than those in a 'savage state' *despite* the fact that their labour supports not only themselves, but also has to carry the weight of all those who do *not* work, or do not work 'productively'.<sup>118</sup> Smith is more radical in his formulations in the *Early Draft* and the *Lectures on Jurisprudence* than in the *Wealth*, claiming that 'he who, as it were, bears the burthen of society has the fewest advantages'<sup>119</sup>—and *yet* such

<sup>113</sup> PR §49.

<sup>114</sup> WN I.I.11, cf. ED I.1, LJ(A) 337, 340.

<sup>115</sup> Cf. e.g. Istvan Hont, *The Jealousy of Trade* (Cambridge, MA: Harvard University Press, 2005), 92.

<sup>116</sup> According to John Locke, 'a king of a large and fruitful territory there [in America] feeds, lodges, and is clad worse than a daylabourer in England (*The Second Treatise on Government and A Letter Concerning Toleration* (Mineola, NY: Dover Publications, 2002), chap. 5 sec. 41).

<sup>117</sup> E.g. Mandeville, Hutcheson, Hume, or Johnson; cf. Winch, *Riches and Poverty*, 57f.

<sup>118</sup> WN II.III.1; Smith emphasizes that both types of labour, productive and unproductive, can be socially useful, but only 'productive' labour 'fixes and realizes itself in some particular subject or vendible commodity, which lasts for some time at least after that labour is past' (WN II.III.1). The point is thus a distinction of investive versus consumptive behaviour. For a discussion see e.g. Mark Blaug, *Economic Theory in Retrospect*, 5th edn. (Cambridge: Cambridge University Press, 1996), 53ff.

<sup>119</sup> LJ(B) 489. In one such passage in the *Early Draft* that seems to contradict my reading of the Smithian market as rewarding virtue Smith argues that 'those who labour most get least', comparing a rich merchant and his 'clerks and accountants', as well as an artisan and a poor agricultural worker (ED I.5). The rich merchant, however, might have acquired his advantage through unequal market power, as has been discussed earlier. As far as the artisan and the labourer are concerned, the remark is problematic for my reading. It might be accommodated, however, as describing a certain stage in the development of commercial society rather than its long-run tendency—a vicious artisan should, in the long run, fall below the station of a virtuous, hard-working labourer in agriculture, the labourer should be able to work his way up to other jobs that are better paid.

individuals are better off than they would be in a 'savage state' in which the fruits of their labour would all fall to themselves.

Economic growth is a 'consequence of the division of labour', which leads to 'that universal opulence which extends itself to the lowest rank of the people'.<sup>120</sup> To allow for the full development of the division of labour, however, inequalities need to be admitted: they necessarily arise from 'the various degrees of capacity, industry, and diligence in the different individuals'.<sup>121</sup> But these inequalities are 'useful', because they lead to the 'assistance and co-operation of many thousands' in providing men with the necessities and luxuries of life.<sup>122</sup> As the economy is a win-win game rather than a zero-sum game, it is no loss to society that some have a larger piece of the cake than others—this helps to make the cake larger, and is thus beneficial for everyone, Smith holds.<sup>123</sup>

That the poor are better off in commercial society is one of Smith's main arguments for endorsing it. As we have seen, he sees the 'liberal reward of labour' as 'the natural symptom of increasing national wealth',<sup>124</sup> and understands 'opulence' as a state in which prices are low and wages high, so that the members of the working class can live comfortably.<sup>125</sup> The progressiveness of this view becomes clear when one takes into account that Smith writes at a time when poverty was still widely considered an ineradicable social reality, and when many thought that the poor should be *kept* in poverty because of society's need for cheap labour.<sup>126</sup> Smith explicitly rejects this view:

Servants, labourers and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged.<sup>127</sup>

Smith is optimistic that high wages would not make the poor go idle; he thinks, on the contrary, that the 'liberal reward of labour' 'increase[s] . . . the industry of the common people', improves their 'bodily strength',<sup>128</sup> and makes them 'more active, diligent, and expeditious'.<sup>129</sup> The better position of the poor is a central

<sup>120</sup> WN I.I.10, cf. ED I.10. <sup>121</sup> LJ(A) 337f. <sup>122</sup> WN I.I.11.

<sup>123</sup> Cf. WN IV.III.II.11, LJ(A) 50. <sup>124</sup> WN I.VIII.27.

<sup>125</sup> WN I.VIII.36, cf. also ED I.12, where he calls the 'high price of labour' 'the essence of public opulence'. Cf. sections 2.5 and 2.6 of this volume.

<sup>126</sup> Cf. Gertrude Himmelfarb, *The Idea of Poverty* (New York: Knopf, 1983), chap. II, who calls Smith's views 'genuinely revolutionary' (46); and Fleischacker, *On Adam Smith's Wealth of Nations*, 205ff. As Fleischacker notes, Smith might have been silent on additional political measures against poverty because he found the literature of his time on this topic 'nauseatingly patronizing' and wanted to distance himself from it (*A Third Concept of Liberty*, 167).

<sup>127</sup> WN I.VIII.36. It is interesting to note that Smith uses the term 'equity' rather than 'justice'. As other usages of these terms in WN and LJ show, he uses 'justice' for commutative justice, and 'equity' when a certain outcome is desirable from the perspective of an impartial spectator, but not necessarily codified (or codifiable) in positive law (cf. e.g. WN III.IV.8, LJ(A) 105, LJ(A) 119).

<sup>128</sup> WN I.VIII.44.

<sup>129</sup> WN I.VIII.44. He adds that the only risk of high wages is that they may lead workers to overwork themselves, risking their health for the sake of money.

aspect of Smith's answer to the Rousseauian critique of modern society: the alternative of going back to a more equal society would leave the poorest members of society—and indeed everyone else—much worse off than they are in commercial society.<sup>130</sup> Smith's arguments for the 'system of natural liberty' can thus be seen as a kind of 'maximin'-concern for the poor in a Rawlsian sense: they fare better in a free market than under all relevant alternatives Smith can imagine.<sup>131</sup>

In our present context it is important to emphasize that this improvement of the situation of the poor is brought about without any infringements of 'strict justice', that is, individual property rights.<sup>132</sup> Some commentators discover concerns in Smith that point to redistributive measures by the *state*, for example, in his remark about public subsidies for schools.<sup>133</sup> On the whole, however, Smith is clearly committed to a strict defence of property rights, and to the abolition of unjust, one-sided privileges for the rich, and assumes that the beneficial workings of free markets would then help the poor to provide for themselves. It is not because Smith did not care for the fate of the poor that the state should abstain from interventions in the market; on the contrary: he takes it that as a rule of thumb the free market is *better* suited to improve their situation than any redistributive measures.

Whereas in Smith's picture the free market helps to overcome poverty, for Hegel the market *creates* poverty. This change of vision may have been influenced by the onset of the 'industrial revolution' and mass pauperism in England, which was seen as having the most 'advanced' economy.<sup>134</sup> In Hegel's eyes, the market has the effect described in the Gospel according to St Matthew: 'For to all those who have, more will be given, and they will have an abundance; but from those who have nothing, even what they have will be taken away.'<sup>135</sup> Hegel quotes the first half of this verdict in the 1805/06 Jena manuscripts with regard to the rich in commercial society;<sup>136</sup> in the published version of the *Philosophy of Right* it is the second half that seems particularly relevant for considering the situation of the poor.

<sup>130</sup> Cf. in particular Michael Ignatieff, 'Smith and Rousseau', in *The Needs of Strangers* (New York: Viking Penguin, 1985), 105–31, 116ff., and Rasmussen, *The Problems and Promise of Commercial Society*, 101ff.

<sup>131</sup> Cf. e.g. Fleischacker, *On Adam Smith's Wealth of Nations*, 225.

<sup>132</sup> Cf. in particular Hont and Ignatieff, 'Needs and Justice in the Wealth of Nations'. As they argue, the *Wealth* was centrally concerned with a question inherited from the natural jurisprudence tradition, namely how to combine secure property rights (which imply inequality of property) with an adequate provision for those without property. For a critical discussion see e.g. Samuel Fleischacker, *A Short History of Distributive Justice* (Cambridge, MA: Harvard University Press, 2004), 18, 32ff.

<sup>133</sup> WN V.I.III.II.55, cf. Fleischacker, *On Adam Smith's Wealth of Nations*, 205. Among commentators Fleischacker has put most emphasis on redistributive concerns in Smith, but he rightly underlines that a large part of them have to do with *abolishing* measures that *hinder* the economic activities of the poor, so that they can take their fate into their own hands. For a discussion see also Gordon and Young, 'Distributive Justice' (chap. VI in Young, *Economics as a Moral Science*).

<sup>134</sup> Cf. chapter 3.4 of this volume.

<sup>135</sup> Matthew 25:29, New Revised Standard Edition. The term 'Matthew effect' has been coined by Robert Merton, who applied it to the sociology of science ('The Matthew Effect in Science', *Science* 159 (1980) (1968), 59–63).

<sup>136</sup> *Jenenser Realphilosophie II*, 140.

Hegel shares Smith's views about the necessity of inequality as resulting from the principle of 'particularity' in civil society: men differ with regard to their 'subjective aims, needs, arbitrariness, abilities, external circumstances, and so forth',<sup>137</sup> which leads to an unequal distribution of income and wealth. The problem is, however, that the tendency towards more inequality is self-reinforcing: wealth tends to flow to those who already have something. In the Jena manuscripts Hegel compares wealth to physical mass: 'a greater mass attracts the smaller ones to itself';<sup>138</sup> and in later lectures he holds that those who have a large capital stock are automatically privileged in the market, as they can afford lower profits per unit of capital.<sup>139</sup> What separates Hegel even more from Smith, however, is the fact that he does *not* assume that the wealth created by the rich 'trickles down' to the poorer strata of society. Civil society is 'a spectacle of extravagance and misery',<sup>140</sup> and there is nothing in the working of the market as such that would reduce this misery. Although he does not make it explicit, Hegel seems to assume that rather than employers competing for workers, workers compete for jobs, which pushes wages down—something that for Smith only happens in the 'declining' or 'stationary' scenario.

The greatest problem, however, is that the market can throw people into desperate poverty, so that they do not have any chance of working their way up again. Hegel is not quite clear whether this can happen *only* when workers lose their jobs, but this is certainly the greatest risk to which they are exposed. As we have seen, their human capital usually qualifies them to work in one particular industry—but in the chaotic play of the market forces, any branch of industry can 'go dry', for example when fashions change or when there are 'inventions in other countries'.<sup>141</sup> These risks increase when those who are rich become ever more reckless and invest in ever riskier business opportunities: if these fail, more workers are thrown into despair.<sup>142</sup>

For Smith, poverty can be overcome if the market is liberated from unjust remnants of feudal times; for Hegel, solving the problem of poverty is much harder. He is clear that as civil society has disrupted the bonds of the family, the 'public authority takes the place of the family',<sup>143</sup> and is thus responsible for the care of the poor. The problem, however, is not so much that there are not enough material resources to do this. Rather, there is not enough *work*. Private charity, in addition to being 'dependent on contingency',<sup>144</sup> can provide an income, but it cannot create new jobs. The same is true if 'the burden of maintaining [the poor] at their ordinary standard of living' is laid either directly on the rich, or on 'rich endowments, monasteries or other foundations'.<sup>145</sup> This leads to an income that is not 'mediated' by work, which means that it would 'violate the principle of civil society and the feeling of individual independence and self-respect in its

<sup>137</sup> PR §49. <sup>138</sup> *Jenenser Realphilosophie II*, 140.

<sup>139</sup> Griesheim, 494, 609. <sup>140</sup> PR §185, translation changed, italics added.

<sup>141</sup> *Jenenser Realphilosophie II*, 139f.

<sup>142</sup> PR §241, Griesheim, 495. The process is self-reinforcing: the more people fall into poverty, the easier it becomes for those in the higher echelons of society to concentrate 'disproportionate wealth in a few hands' (PR §244, cf. Hotho, 608).

<sup>143</sup> PR §241.

<sup>144</sup> PR §242.

<sup>145</sup> PR §245.

individual members'.<sup>146</sup> But if the state authorities (or private benefactors) provided opportunities to work just for the sake of creating employment, this would increase overproduction, and thus intensify the problem of poverty rather than alleviate it.<sup>147</sup> The dialectic of overproduction drives civil society to other continents, where it looks for new markets in colonies<sup>148</sup>—but this only underlines the fact that it does not have a solution for the problem of poverty *within* its own boundaries.<sup>149</sup>

One might think that for Hegel the only solution to the problem of poverty lies in the corporations, the 'second famil[ies]'<sup>150</sup> of civil society. One of their roles is, after all, to offer a social insurance: if some members fall into distress, they are supported by the richer members. Moreover, Hegel discusses them *after* having described the failure of the police's measures to fight poverty, which might indicate that they present a response to the problems discussed earlier; he also argues that the wretched poverty in Great Britain is a result of the 'abolition of the Guild Corporations'.<sup>151</sup> The question is, however, whether the corporations can be reintroduced when a certain proportion of the population have already fallen into poverty; in addition, not every worker is a member of a corporation.<sup>152</sup> In the end, Hegel resignedly notes that the best solution might be to let the poor beg for themselves,<sup>153</sup> as all other measures fail. '[H]ow poverty is to be abolished' remains 'one of the most disturbing problems which agitate modern society'.<sup>154</sup>

To understand why this is so problematic for Hegel, one has to take into account the non-material dimensions of poverty, which both he and Smith see very clearly. They share a sense that poverty, even when it is only relative, is a problem not only of material deprivation, but also of social exclusion and of the attitude towards society and towards oneself, respect from others and self-respect. Smith speaks about the shame which the poor feel when they are despised and overlooked,<sup>155</sup> and holds that everyone should have the minimum of material

<sup>146</sup> PR §245, cf. also Griesheim, 498. As Priddat notes, from his earliest political writings onwards Hegel holds that it is more dignified to earn money through one's own work than to receive alms (*Hegel als Ökonom*, 38ff.).

<sup>147</sup> PR §245. This argument shows that despite quoting Say as an author of political economy, Hegel does not believe in Say's famous law, according to which supply creates its own demand. This law only holds if all income is used for consumption rather than hoarding. Hegel might have found the idea that the use of money makes possible imbalances between global supply and demand in Stuart (cf. Chamley, 'Les origines de la pensée économique de Hegel', 254). For a discussion of Say's law see e.g. Blaug, *Economic Theory in Retrospect*, chap. VI.

<sup>148</sup> PR §246ff.

<sup>149</sup> This has been emphasized in particular by Avineri (*Hegel's Theory of the Modern State*), who argues that there is no comparable place in Hegel's system where he leaves a problem open without providing a 'sublation' (151f.). For a recent discussion that sees an even more dramatic failure of Hegel's whole philosophical endeavour in his treatment of the rabble see Frank Ruda, *Hegels Pöbel. Eine Untersuchung der Grundlinien der Philosophie des Rechts* (Konstanz: Konstanz University Press, 2011).

<sup>150</sup> PR §252.

<sup>151</sup> PR §245, cf. Hotho, 711.

<sup>152</sup> Day labourers and unskilled workers are not members, cf. PR §252.

<sup>153</sup> PR §245, Griesheim, 611f.

<sup>154</sup> PR §244Z, cf. also Hotho, 703.

<sup>155</sup> TMS I.III.2.1. Cf. Hanley, *Adam Smith and the Character of Virtue*, 50, for a discussion.

goods that is needed in order 'to appear in public' without shame.<sup>156</sup> Hegel is even more explicit about the non-material consequences of poverty. The poor of civil society may be better off than the inhabitants of a 'savage' state, but Hegel, like Smith, accepts that poverty is relative to the prevailing conditions, with the minimum subsistence level varying 'considerably in different countries'.<sup>157</sup> The poor do not compare their situation to that of earlier epochs, but to that of the richer strata of their own society.<sup>158</sup> Thus, the bitter irony of poverty in civil society is that the *desires* of the poor are as much socially determined as those of the rich; they see all the luxury that they might acquire, but know that these objects are other people's property, inaccessible for them.<sup>159</sup> Many poor<sup>160</sup> therefore resent the society which denies them access to these riches, and develop a 'rabble' mentality, consisting in a 'loss of the sense of right and wrong, of honesty and the self-respect which makes a man insist on maintaining himself by his own work and effort'.<sup>161</sup>

Hegel seems to be in two minds in his evaluation of this mentality. On the one hand, he rejects it, on the other, he sees very clearly that the poor cannot 'enjoy the broader freedoms and especially the intellectual benefits of civil society',<sup>162</sup> which seems to justify their indignation. Maybe the most important benefit of civil society that the members of the 'rabble' lack is a professional identity, 'honour' and the *Bildung* that one acquires through work, and it is quite plausible that without these they also lose the willingness to work for their subsistence.<sup>163</sup>

While the material side of poverty has to some degree been overcome by social insurance and the welfare state,<sup>164</sup> the question of its non-material effects is still

<sup>156</sup> WN V.II.II.IV.3.

<sup>157</sup> PR §244Z, Griesheim, 608, for a discussion see e.g. Richard A. Davis, 'Property and Labor in Hegel's Concept of Freedom', in William Maker (ed.), *Hegel on Economics and Freedom* (Macon, GA: Mercer University Press, 1987), 183–208, 201ff.

<sup>158</sup> In a state of nature the poor cannot accuse nature of their misery, because 'nature' is not a responsible agent, but 'once society is established, poverty immediately takes the form of a wrong done to one class by another' (PR §244Z). This issue becomes particularly urgent when one considers that the subjective freedom and 'caprice' of *some* can throw *others* into misery, as the passage in PR §240 seems to imply.

<sup>159</sup> PR §195. In addition, in civil society the producers arouse ever new and ever more refined desires in the customers, which makes the gap between what the poor have and what they wish for even greater (Griesheim, 493).

<sup>160</sup> It is not poverty itself that turns someone into a member of the rabble, but rather 'a disposition of mind, an inner indignation against the rich, against society, against the government, &c.', jointly with 'frivolity' and 'idleness' (PR §244Z, cf. also the remark in Griesheim, 608, that there can also be rich rabble; for a discussion see Ruda, *Hegels Pöbel*, chap. 6), but Hegel does not give a reason for why some poor individuals would turn into 'rabble' and others not.

<sup>161</sup> PR §244.

<sup>162</sup> PR §243.

<sup>163</sup> PR §244Z, Hotho, 703, Griesheim, 606ff. In the Griesheim lectures Hegel notes that without a profession one cannot teach one's children abilities and knowledge, one depends on charity for medical and legal services and one cannot even enjoy the consolation of religion, as one cannot go to church 'in rags' (Griesheim, 606).

<sup>164</sup> Ideas about social insurance had already been discussed by Enlightenment thinkers like Paine and Condorcet (cf. Gareth Stedman Jones, *An End To Poverty? A Historical Debate* (New York: Columbia University Press, 2004), chap. I), but it only became widespread in the late 19th century.

very much with us.<sup>165</sup> Even if some market societies have managed to redistribute income to the poor in a way that secures an acceptable standard of living in absolute terms, questions about social exclusion and the lack of self-respect are as urgent as ever.

Smith's and Hegel's answers, again, differ. For Smith, a well-ordered market society in which there is economic growth<sup>166</sup> has an inherent tendency to curb these problems. Not only, as we already have seen, does it improve the situation of the poor as wealth trickles down to all classes. In addition, profits will sink in the long run, as a result of increased competition for less and less profitable outlets of investment.<sup>167</sup> As with the rise of wages, Smith holds that this development has already started in England, and can be expected to continue.<sup>168</sup> The rents for land rise within a growing economy as land gets scarcer;<sup>169</sup> they go down, however, when the productivity of the land cannot be increased any more.<sup>170</sup> If one adds up these remarks, it is clear that for Smith the long-run tendency in commercial society is towards more material equality,<sup>171</sup> and towards a situation in which more of the differences in income are the result of desert, as capital income declines. More equality, however, can lead to more sympathy and more mutual respect between the different strata of society. For Smith, to feel sympathy with others one has to be 'in some measure . . . at ease [oneself]',<sup>172</sup> a condition that is fulfilled even for the poorest citizens in a well-ordered commercial society. When men are very unequal, they may be unable to put themselves into the other person's shoes.<sup>173</sup> But if their material situations become more and more similar, it is likely that they will feel more and more sympathy with one another, and thus also more mutual respect. In Smith's optimistic vision, the poorer layers of

<sup>165</sup> Cf. e.g. Fraser's and Honneth's debate (in *Redistribution or Recognition?*) on whether recognition and redistribution should be seen as two different aims of social justice (Fraser) or whether questions of redistribution can be subsumed under a theory of recognition (Honneth). They share the assumption that *both* aspects are central in addressing the problem of poverty and inequality.

<sup>166</sup> Cf. Smith's remarks on the growing, stationary, and declining state in WN I.VIII (cf. chapter 2.6 of this volume). In the stationary or declining state, wages are pressed down to subsistence level, and the population shrinks, but this is not the relevant case for the countries of Europe (cf. WN I.XI.15). On China, which is his example for a stationary state, he notes that this is not so much the result of its 'soil, climate, and situation' but of its 'laws and institutions' (WN I.XI.15).

<sup>167</sup> WN I.IX.2ff., cf. also II.IV.5ff. In the 'ruin of their country' manufacturers, on the contrary, can flourish (WN IV.I.29). Smith holds that the interests of merchants and manufacturers are therefore always to some degree opposed to that of the country as a whole (WN I.XI.Concl.10). The only exceptions to this rule are new colonies, in which there can be *both* high wages *and* high profits (WN I.XI.11).

<sup>168</sup> WN I.IX.6. Secure property rights reinforce this development: the more legal security, the lower the interest rates, as traders do not need to demand a risk premium any more (WN I.XI.16f.).

<sup>169</sup> WN I.XI.Concl.8.

<sup>170</sup> WN II.III.9.

<sup>171</sup> Cf. also Schliesser, 'Some Principles of Adam Smith's Newtonian Methods', 37.

<sup>172</sup> TMS V.II.9, for a discussion see e.g. John Robertson, *The Scottish Enlightenment and the Militia Issue* (Edinburgh: John Donald Publishers, 1985), 223.

<sup>173</sup> Cf. Smith's remarks on the fate of slaves being much worse in a rich than in a poor society, because in the former their owners are at such a distance from them with regard to their way of life that they do not even consider them to be human beings (LJ(A) 184).



commercial society are materially better off, but also more independent-minded and better educated.<sup>174</sup> They are recognized as equal members of society, as 'responsible, moral agents'<sup>175</sup> in a 'culture of respectability which [extends] to all social orders'.<sup>176</sup> There will never be complete equality, but all can afford the leather shoes without which one would be 'ashamed to appear in public'<sup>177</sup>—and the long-term tendencies are towards even more equality, and hence even more mutual respect and recognition of all citizens.<sup>178</sup>

All this hinges, however, on the optimistic assumption that the economy is growing, and that what the bulk of the population have to offer—their labour—is sought after, so that the wages are driven up.<sup>179</sup> This assumption thus carries immense weight in the architecture of the Smithian system. In the Hegelian picture, in contrast, the problem of the rabble is to be solved, or attenuated, by the police and the corporations, but it remains unclear whether this will be successful.<sup>180</sup> The weight which in Smith's system rests on the assumption of economic growth thus rests on these institutions and their ability to integrate the poor into society.

Hegel's silence about the problem of poverty indicates that despite his awareness of the contemporary situation in England he did not anticipate how pressing the 'social question' would become in the decades after his death.<sup>181</sup> It was Marx who, a couple of decades later, theorized the necessity of capitalism to produce a proletariat, which would carry the flag of the socialist revolution.<sup>182</sup> The historical path of the Western capitalist economies has been different, however: in a long historical process and through a bundle of measures—labour unions, factory legislation, progressive taxation, social insurance systems, and so on—a greater part of the material resources was gradually directed towards the poorer members of society. It was not quite 'voluntary' trickling down alone, as Smith had predicted—although one might also find instances of that—but it seems fair to say that without the growth of the cake (which Smith also predicted) it would have been more difficult to achieve a redistribution in the ways in which it has

<sup>174</sup> Cf. WN IV.VII.III.54, where Smith holds that if the lower classes are 'instructed and intelligent', they 'feel themselves, each individually, more respectable, and more likely to obtain the respect of their lawful superiors, and they are therefore more disposed to respect those superiors', which is an additional reason for the sovereign to care about public education (WN V.I.III.II.61).

<sup>175</sup> Himmelfarb, *The Idea of Poverty*, 63.

<sup>176</sup> This formulation is from Muller, *Adam Smith in His Time and Ours*, 95.

<sup>177</sup> WN V.II.II.IV.3. Smith here explicitly defines 'necessities' as 'not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without'.

<sup>178</sup> There is one remark in WN that seems to contradict this reading: 'Wherever there is great property, there is great inequality. For one very rich man, there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many' (V.I.II.2). The question is, however, *how* poor these poor are—and the fact that this is the *only* remark of this kind in all of LJ and WN means that it cannot carry too much weight in an overall reading of Smith.

<sup>179</sup> Cf. also West, 'Adam Smith and Alienation', 545.

<sup>180</sup> Cf. also chap. 7 of this volume.

<sup>181</sup> Cf. Gareth Stedman Jones, 'Hegel and the Economics of Civil Society', in Sudipta Kaviraj and Sunil Khilnani (eds.), *Civil Society: History and Possibilities* (Cambridge: Cambridge University Press, 2001), 105–31, 129f.

<sup>182</sup> Cf. Karl Marx: *A Reader*, e.g. 81 (*Critique of Hegel's Philosophy of Right*), 251ff. (*Communist Manifesto*).

happened, especially in the 1930s to 1970s. What seems to have lingered on, however, are the lines of the debate about how to fight poverty: whereas right-wingers (and many economists) argue that this needs to be done *through* the market, the political left looks to the state for redistributive measures. Independently of what can be known about the distributive effects of concrete measures—and empirical research on this topic is anything but straightforward<sup>183</sup>—the intellectual approaches inherited from Smith and Hegel are here very much with us.

#### 5.4 CONCLUSION: HOW TO THEORIZE JUSTICE AND THE MARKET

To bring this chapter to a close, let me draw some broader conclusions about the notion of desert and about the immaterial aspects of poverty and their relation to the market, before reflecting on different strategies for theorizing social justice.

Smith's account of how the market rewards the bourgeois virtues provides a powerful model for how a principle of desert might be realized in markets. The market as the good natural order of the economic realm entices people to contribute to the 'common stock' by furthering other people's interests and their own interests in prudent and honest ways. It is hard to imagine a more optimistic vision of the market with regard to its ability to reward desert.

The question is, however, what we should do with this model today, once we dispense with the metaphysical background of Smith's system and his assumptions about the 'naturalness' of markets. Without this background, is there any reason to assume that markets ever have the perfect form Smith describes, so that we could somehow 'find' desert in them? Can we still make sense of the idea of applying a principle of desert to the market, or have we retained an intellectual habit without realizing that its bases have been eroded? Or should we assume, with Hegel, that markets are marred by one-sided dependencies and unpredictable outcomes and thus lack any pattern that could be related to notions of desert in any way?

Here, let me point out one assumption of the Smithian model that I have not discussed explicitly so far, but which marks a crucial difference with the picture modern economists draw of the market. Smith assumes that when individuals enter the market, their natural moral sentiments are not overridden by the desire to maximize their material gains, for example by buying wherever they can buy cheapest, no matter how many moral failures accompany the production of a commodity. In the Smithian market people may not look for highest virtue, but they do care about the bourgeois virtues of honesty, reliability, and justice. Modern economic models, in contrast, do not make any assumptions about whether individuals care about any kind of moral standard of how the goods they purchase are produced. As Alasdair MacIntyre has poignantly put it: if the butcher from

<sup>183</sup> Cf. e.g. Berger, *Der diskrete Charme des Marktes*, chap. 4, who emphasizes that the use of different indicators can lead to very different results with regard to the development of income distributions in capitalist societies.

whom we want to buy our dinner happens to have a heart attack while we are in the shop, we would not simply leave, thinking: 'Ah! Not in a position to sell me my meat to-day, I see.'<sup>184</sup> This, however, is how the agents of most economics textbook models would react, or at least there is nothing in these models that suggests otherwise. Such an agent would not care about whether companies produce their goods by exploiting child labour, wasting natural resources or discriminating against minorities, either. But if one does not put any moral concerns into the model, it is unlikely that they miraculously drop out of it in the end—and without such an assumption there is no reason to believe that markets give people what they deserve, not even if the bases of desert are the undemanding bourgeois virtues. The Smithian agents, however, possess these virtues, and care about them in other people: they are modest, honest, obey the laws as well as the social norms of decency and respect, and care about their good reputation.<sup>185</sup> Without this assumption the whole idea of markets rewarding the exercise of bourgeois virtue collapses.

So the question is whether the individuals in today's markets carry their basic moral convictions into the market or whether they act as pure utility maximizers. There are three reasons to think that the latter is more likely. There is, first of all, the self-fulfilling character of social theories—and as the model of the market that has been around for more than a century is that of a morality-free zone, it is unlikely that it should *not* have influenced people's behaviour in markets. Secondly, the most powerful agents in today's markets are usually not natural individuals, but institutions, in particular corporations—but it is unclear what it would mean for a corporation to feel sympathy with others. One might say that the behaviour of corporations hinges on the expectations, and hence also the moral sentiments, of their shareholders. Sometimes this may be true; often, however, corporate structures develop a dynamic of their own that can be at quite a distance from the official commitments to their shareholders. And if shareholders are themselves institutions, for example, pension funds, the chain to human individuals who might be influenced by moral sentiments is quite long. This leads us to the third problem, namely the complexity and international dimension of modern markets. Smith's reflections on the weakening of sympathy with people in foreign countries imply that if goods come from distant parts of the world it is quite likely that buyers will not pay attention to the conditions of production, because they are not very well able to feel sympathy with all individuals who are involved in the chain of transactions.<sup>186</sup> The emotional and imaginary distance from, say, a sales assistant in New York who has invested some of her savings in a pension fund that has invested it into a bunch of companies some of which employ subcontractors in India, to the families who are affected by the behaviour of these subcontractors, is enormous, and it is problematic to assume that the ties of sympathy are strong enough to accompany this long chain, especially when the sales assistant has come to think that it is morally okay to

<sup>184</sup> Alasdair MacIntyre, *Dependent Rational Animals. Why Human Beings Need the Virtues* (London: Duckworth, 1999), 117.

<sup>185</sup> Cf. TMS VII.7ff.

<sup>186</sup> Cf. e.g. TMS III.III.4.

expect maximal returns on her savings, and that the only way to help poor children in India is to donate money to charities.

In short: it is extremely problematic to assume that people's moral sentiments play the kind of role in today's globalized, profit-driven markets that they would have to play for the idea that markets reward the bourgeois virtues to make sense. If companies can win the competitive struggle by violating even the most basic rules of justice, rather than being driven out of business by morally outraged customers and suppliers, it seems cynical even to ask whether they might deserve their high profits, apart from all the other problems discussed earlier.<sup>187</sup>

One might thus think that the idea of desert is nothing but an ideology that should be given up, the sooner the better. But this would be a hasty conclusion, and one that would take 'the market' as given in a sense that we do not have to accept. Markets depend on political and cultural institutions that are to some degree shaped by us. Of course, they cannot be controlled in the sense of simply moving a lever. But there are nevertheless institutions like the legal system, the tax system, or the cartel office that can influence their outcome to some degree. For example, the marginal productivity of workers depends not only on 'pure' market forces, but also on factors such as regulations on workplace security, export subsidies, or the availability of affordable education and training. And, importantly, the attitude of individuals in markets can also change: it is not inscribed into the nature of markets that individuals only look at the price of things, without caring about the conditions under which they are produced.

It is unlikely that markets will ever be perfect in embodying a principle of desert, and it is worth emphasizing once more that what they can reward, if they reward anything at all, is only *one* set of virtues, and arguably not even the highest one we can think of and aspire to. But nevertheless, markets are more just, *ceteris paribus*,<sup>188</sup> if they fulfil this principle to a larger rather than to a smaller degree. Any system of rules, by providing incentives and disincentives, rewards certain forms of behaviour and punishes others, whether or not this has been intended by those who set the rules. What Smith cares about is that the incentives in commercial society reward forms of behaviour that can be endorsed by an impartial spectator. The idea that 'virtue should pay' is for him a kind of regulatory ideal about how this system of rules should work. It is this idea that we can still make sense of, even if—or indeed precisely because—we do not hold any more that these rules are a question of the 'natural order' of the social cosmos, but depend to some degree on human action.

If one completely gives up the notion of desert, one loses the possibility of evaluating the question of what behaviour is rewarded in markets from a normative perspective. But it is questionable whether we should really withdraw

<sup>187</sup> Nevertheless, the idea that the market rewards virtuous behaviour still has its followers today. See e.g. Ian Maitland, 'Virtuous Markets. The Market as School of the Virtues', *Business Ethics Quarterly* 7(1) (1997), 17–31, or McCloskey, *The Bourgeois Virtues*. A more balanced view about the chances as well as risks of Smithian virtue in a market society can be found in Thomas Well and J. J. Graafland, 'Adam Smith's Bourgeois Virtues in Competition', *Business Ethics Quarterly* 22(2) (2012), 319–50.

<sup>188</sup> It might be the case that making the market more just in the sense of desert conflicts with other desiderata for how to design the framework for markets. But then these conflicts should be discussed openly, rather than simply dropping the notion of desert.

judgment on this issue and shrug off the intuitive reactions to it we are likely to have. The intuition that what is rewarded in markets should be good, honest work that serves the real interests of others is deeply embedded in our shared moral understanding, as can be seen from the regular outcries in the public debate about incomes that seem to be completely out of link, downwards or upwards, with the contribution to the social whole. Although we may justifiably be quite wary about the ability of today's markets to reward virtue, we should not give up the normative intuition behind it—rather, we should think about the question of whether markets can be *brought closer* to rewarding the right kind of behaviour. For this, we need not even completely agree with Smith about what the bourgeois virtues consist of. But often we can at least agree on what would be the respective 'vices' that should *not* lead to highest success in markets. And sometimes we can suppress them by changing the rules of the system in ways that make it more difficult to succeed with such methods. Misleading and aggressive advertisement, for example, is banned in many countries, because the ability to manipulate other people's wants is *not* what should lead to success in markets, and it is certainly no part of Smithian bourgeois virtue. In fact, many of the central questions of 'framing' the market with regard to desert have to do precisely with the factors that have emerged from the analysis of Smith's and Hegel's account of the market: market imperfections, one-sided dependencies as a result of differential exit options, and most of all imbalances of power.

Here, the question of desert relates to the questions of the immaterial dimensions of poverty discussed in the second part of this chapter. A central aspect of the psychological afflictions that Hegel describes as the 'rabble mentality' is a feeling of 'being stuck', of being denied the right to participate in the economic development of society. For some social groups the labour market does not appear to be open and welcoming any more, as a place where they can integrate themselves in society, receive recognition for their contribution, and maybe do things that can be described as acquiring desert. In its original form, however, the idea that markets reward desert was directed precisely against such social exclusion. Everyone should have a chance to be rewarded in the market if he or she is prepared to play by the rules of the game: to obey the laws, to work hard, and to show the bourgeois virtues that make sure that pursuing one's interests helps rather than hinders others in pursuing theirs.

Typically, the problems that prevent the notion of desert from being applicable to markets are also the obstacles that keep disadvantaged individuals from succeeding in them. But they can, to some degree at least, be removed by wise political action. It is a task to *make* markets such that they are, if not perfectly Smithian, then at least *more* Smithian, in the sense of allowing people to be socially included and to be rewarded for hard, honest work. Today, however, the challenge of giving *everyone* a chance to participate in raising the wealth of the nation requires more proactive measures than the ones Smith suggested in his reflections on education, and it may require much more regulation than those who claim to speak in his name would allow.

An important dimension of this is the question whether income is acquired mainly as labour income or as capital income. According to numerous commentators, the recent years have seen a massive shift from labour to capital income, which went hand in hand with a growing disparity of income and wealth. Capital

income, however, is often undeserved, especially if the wealth on which it is based is inherited or is the result of luck in financial speculations. From the point of view of the Smithian vision, this is a dangerous development not only because of the influence that the super-rich can exert on political processes, but also because of the decoupling of relative wealth from anything like a contribution to the social whole by practising the bourgeois virtues. It means that, increasingly, those at the bottom end of society lose the hope of working their way up, and fall into the kind of apathy and uproar against society that Hegel observed in the 'rabble' of his day.

This leads me, finally, to the question of how to theorize justice and the market. I have drawn a distinction, above, between theorizing about market *societies* and theorizing about *the market* when arguing about social justice. I take it that doing *only* the former, without paying attention to the market and its *direct* effects on equality, poverty and justice, is insufficient.

Contemporary theory has largely followed a Hegelian strategy: it has given up the idea of realizing justice *in* markets, and has concentrated on the institutions that surround it. This is also Hegel's answer to the problems of civil society. Although the police and the corporations try to attenuate the problems of social exclusion and poverty, Hegel's final solution is that there has to be an *additional* social sphere—the state—in which a universal, non-formal form of recognition has its place; where citizens are *citoyens*, not only *bourgeois*.<sup>189</sup> But it is questionable whether this is a sufficient solution, for at least two reasons.

First, receiving charity or support from the state is simply not the same as having a job and supporting oneself and one's family. From the perspective of mainstream economics, where labour time is usually modelled as something people want to *minimize*, it may look equivalent. But if one takes into account the additional normative dimensions of the labour market that can be found in the writings of Smith and Hegel, it is clear that these are *not* equivalent. For both authors, taking part in the economic life of one's country is more than just a way of earning a living: it is also a way of practising certain virtues, or of acquiring a professional ethos and of being recognized by the members of a certain profession.

Secondly, it is questionable whether economic exclusion and inequality can really be overcome by political inclusion. In Hegel's account of the state the question about recognition of the poor returns: political representation is organized through the estates and corporations,<sup>190</sup> and the members of the 'rabble', that is, those who one might expect to stand in the most urgent need for political recognition, are precisely those who have fallen out of these structures.<sup>191</sup> Although we do not have corporations any more, the problem that political influence, public interest, and social recognition tend to follow economic success is still very much with us.

<sup>189</sup> Cf. chapter 6.4 of this volume. A similar thought is expressed by Miller, who holds that 'the meritocratic allocation of jobs and rewards needs to be offset by a robust form of equal citizenship—robust in the sense that people have a strong understanding of their equality as citizens regardless of their different economic deserts, and robust in the sense that equal citizenship is the controlling principle for benefits such as health care and education' (*Principles of Social Justice*, 200). On equal citizenship in a capitalist society see in particular T. H. Marshall, *Citizenship and Social Class* (London: Pluto, 1992).

<sup>190</sup> PR §300ff.

<sup>191</sup> On the problem of how the rabble might develop the right attitude towards the state cf. also Ruda, *Hegels Pöbel*, chap. 10.

The hope that other dimensions of social life might compensate for the exclusion that comes with the lack of economic success thus seems rather problematic. This means that the question of social recognition cannot be addressed without taking into account economic issues and the impact they have on how recognition is practised in today's societies. It means that questions of justice *within* markets need to be discussed in addition to political ones.

For better or for worse, the market is a reality of our lives, and this is a compelling reason not to leave it 'undertheorized' with regard to social justice. The market is not a black box that follows iron laws and can only be accepted or rejected wholesale; nor is it a normatively colourless 'system' that can simply be integrated into the normative framework of the rest of society. Rather, while certainly having its own dynamic, it depends in complex and subtle ways on the institutions that surround it. It may not be possible to harness it completely, but its outcome can to some degree be influenced by its legal and political framework.

Rather than focussing exclusively on redistribution, a central question is how to make it possible for poor members of society to get out of poverty through their own initiative, and to be integrated into the social structures of the economic realm on an equal footing. Often, this is a question of acquiring human capital, and so a strong focus of debates about fighting poverty has rightly been on the need for high-quality public education that gives every child a chance to acquire essential abilities and to discover his or her talents and how to employ them in socially useful ways. But not only primary education, but also institutions of continuing education can help individuals to take on new roles and acquire more, or different, human capital during the course of their lifetime. Such institutions give people a chance to revise earlier decisions, in which luck or external circumstances may have played a considerable role, and to take on responsibility for their lives.

Another issue concerns the behaviour of firms, and the question of whether markets reward efficiency only, or whether there is also some awareness of the wider moral context, at least in the sense of basic standards of human rights and legality. This matters in particular for international companies that operate in countries with weak regulatory structures. More transparency and more consciousness among customers are crucial for making markets more just, and better oriented towards transactions that are beneficial for everyone involved. The Smithian ideal of markets as rewarding the provision of goods by practising the bourgeois virtues can here play a heuristic function: it can help us to ask whether we think a company can deserve the profits it makes, or whether it might have illegitimately exercised power over others, or violated basic rules of morality in some other way. After all, the power of some rich individuals and large corporations does not seem to be so far removed from the feudal and commercial abuses that Smith attacks, and in contrast to which he develops his vision of an open, meritocratic market society. Those who argue that the notion of desert as applied to the market should be given up altogether run the risk, in the end, of playing into the hands of those who want to defend such undeserved privileges.

Much of the recent criticism of markets seems to have to do not only with their impact on the poor or on the natural environment, but also with the problem that they seem to reward forms of behaviour that an impartial spectator could not endorse, for example, short-term instead of long-term thinking, or the fancy

appearance of products rather than their having a solid quality. The notion of desert can be highly useful as a 'critical notion', as Miller puts it, which helps us to formulate intuitions about things that go wrong in the economic system.<sup>192</sup> As such, the principle that markets should reward desert does not *justify* free markets. Olsaretti's analysis of attempts to do this can be understood as showing that such attempts expect too much from the principle of desert: it is not sufficient as the *sole* basis for constructing a just market system. But it can help us to bring such a system *in line*, as much as possible, with our intuitions about justice. It does not serve to either justify or reject 'the free market' as such; rather, it differentiates between cases in which this correspondence is stronger or weaker. Other things being equal, we should try to make it stronger.

These are only some of the issues that might be raised if justice is discussed with regard to markets themselves. But there may be others that are far less obvious, at least to those of us who are philosophers. Markets have a primary effect on social justice that should not be neglected, no matter how important other institutions such as public education may be. Anti-trust laws or the structure of corporate taxation, for example, have, to my knowledge, seldom been of interest to commentators on social justice—but they might have far greater effects on distribution than some changes in the redistributive system.<sup>193</sup> Often, such issues are very fine-grained; some hidden clause in the small print of a regulation on labour protection may, for example, have a huge impact on how companies react to it or try to circumvent it. And not all factors that influence the justice of markets are questions of explicit laws and regulations; social expectations, role models and networks can also have an enormous impact, for example when the access to certain jobs is monitored by so-called 'old boy networks'. Such issues have often been raised by feminist and post-colonial philosophers, but their relevance for distributive justice, *via* their economic effects, has not been much of an issue.

With these claims in mind, let me come back to the example of Wilt Chamberlain. This example describes a case in which many of the *obstacles* to the market rewarding the bourgeois virtues do not play a role. There are no obviously harmful externalities involved; playing basketball neither pollutes the atmosphere nor produces weapons that might find their way into the wrong hands, nor does it cause addiction (although the latter point might be disputed). Most importantly, however, all transactions take place against a background of equal rights, and no coercion or one-sided market power is involved. The buying of tickets is purely voluntary, and the very fact that they can spend money on these tickets shows that the buyers do not live in dire poverty and might act out of necessity or lack of choice. This market is almost perfectly 'Smithian'. The more a market resembles such a situation, the more plausible it is to call its results deserved, although it will always remain subject to the influence of luck in the 'natural lottery'.

What makes the example so intriguing, however, is that it describes the case of an individual whose starting position was such that it did not look likely that he

<sup>192</sup> Miller, *Principles of Social Justice*, 123, 127, 140ff.

<sup>193</sup> An excellent example of the kind of research I have in mind is Peter Dietsch, 'The Market, Competition, and Equality', *Politics, Philosophy and Economics* 9(2) (2010), 213–44, who discusses the effects of competition on different groups in the market. He equally emphasizes the neglect of research along these lines, but his article is a promising start.



would ever make a fortune. It is the case of someone who made it from a very low stage of society to a high one, and although talent and luck certainly played a part, his achievements would have been impossible without hard work. But it should also be noted that Wilt Chamberlain's talent was discovered in a state school, which would not even exist in a Nozickian state.

In the end, what matters is maybe not so much that lucky individuals like Chamberlain can earn much more than other, less lucky ones; to some degree sports stars and pop stars are special cases because of the specific mechanisms in the market for public attention. What matters is that all individuals have a chance to discover their way of being successful market participants, and that markets, in particular labour markets, offer everyone a chance to work themselves up. And the more markets are based on voluntary transactions, without one-sided dependencies and exploitation, the more we can normatively endorse the success of those who gain a high income in them. This is a matter of surrounding institutions, such as public schools, and it naturally suggests itself to tax lucky individuals like Chamberlain in order to raise funds for this purpose. But it is also a matter of market structures themselves. Those who think about social justice should try to address *all* these normative dimensions of the economic realm. This helps not only to make more and better suggestions for how to improve the situation in our societies, but also for understanding the many and complex normative issues that are at stake within markets. By theorizing about the market *itself*, we can perceive its normative problems more clearly, but also unlock its normative potentials.

## Freedom, Freedoms, and the Market

### 6.1 INTRODUCTION

Freedom is one of the most contested concepts in the history of political thought. ‘Give me liberty or give me death’, was the battle cry of the American Revolutionaries. ‘To stand on free ground, with a free people’, is the last wish of the hero of Goethe’s *Faust*. ‘Liberté’ comes first in the slogan of the French Revolution. But it is not so clear whether the word means the same in these three instances, and in the many other instances in which it was used by thinkers and protesters, novelists and rebels. In political theory, the debate about different notions or aspects of freedom<sup>1</sup> has been a constant theme at least since the time of the aforementioned revolutions. The systematic study of different conceptions of liberty and the (re)discovery of what historical thinkers meant when using this concept often went hand in hand, and while Isaiah Berlin’s famous, or infamous, distinction between ‘negative’ and ‘positive’ liberty is still widely taught,<sup>2</sup> the scholarly debate has moved on to different conceptions. In recent years, the discussion turned in particular around a ‘republican’ account of freedom, as suggested by Philip Pettit and Quentin Skinner, and the ways in which it is similar or dissimilar to other notions.

This chapter discusses the relation between different aspects of liberty in the accounts of the market society in Smith and Hegel. According to the widely held clichés about Smith and Hegel, the former belongs to the camp of ‘negative liberty’, understood as the absence of external interference, with a strong focus on the economic freedoms of the market. Hegel, in contrast, is often cited as the paradigm example of a thinker of ‘positive’ freedom, with a strong focus on the role of the state in making possible richer notions of freedom. As we shall see, these clichés have a valid core, but things are more complex—both in the accounts of Smith and Hegel, and with regard to the different aspects of freedom and how they hang together. In particular, the conception of ‘positive’ freedom is far richer and more differentiated than the simple contraposition to ‘negative’ liberty implies. The aspects and dimensions of freedom Smith and Hegel describe depend, to a large degree, on their views of the market and its relation to society. What is at

<sup>1</sup> I use the terms ‘liberty’ and ‘freedom’ interchangeably.

<sup>2</sup> Isaiah Berlin, *Two Concepts of Liberty: An Inaugural Lecture Delivered before the University of Oxford on 31 October 1958* (Oxford: Clarendon Press, 1958).

stake is the relation between different aspects of liberty and the place these notions can have in an account of a liberal society.

I start from an assumption that Smith and Hegel, as well as many contemporary theorists, share: in a liberal market society citizens have a wide range of 'negative' freedoms such as freedom of opinion and of religion. Importantly, the market itself also gives them a kind of negative freedom: the freedom to deal with their property as they like, without interference from a central planner.<sup>3</sup> As we have seen, for Smith and Hegel this is a central argument for the endorsement of the market. Strictly speaking, one would also have to supply an argument about how and why a regime of private property—maybe together with some redistributive measures—is compatible with negative freedom, or why it is the regime that on the whole leads to fewest restrictions on it. Unless one understands negative freedom in a purely formal sense as the freedom that exists within a given system of property rights, one has to agree with Gerry Cohen's claim that *any* system of property rights allows some freedoms and restricts others: I am free to use my own property, but not that of others, and unless I have *some* property in the first place, talk of the 'liberty' to buy and sell has a hollow ring. A market society is thus not free by definition, but consists in 'complex structures of freedom and unfreedom'.<sup>4</sup> For the themes addressed in this chapter, however, I assume that for Smith and Hegel a well-ordered commercial society does indeed give all citizens a high amount of negative liberty, maybe the highest that can realistically be expected in a complex modern society. Being 'well-ordered' can include some degree of redistribution through taxation or institutions like the corporations; it should include at least as much redistribution and legal protection as is needed in order for the negative liberty of citizens not to be undermined by the necessity to accept exploitative contracts. Many contemporary debates about the kind of freedom one can have in a capitalist society, for example the debate about an unconditional basic income, turn around the question of which and how many such measures are needed in order to allow for more than a purely formal freedom.<sup>5</sup> These are important questions, but it seems unlikely that Smith's optimistic assumptions about economic growth and its distributive effects, or Hegel's wishful suggestion to introduce powerful corporations, can help us a lot for them—except, maybe, in order to show that neither can be recruited among the defenders of a conception of liberty understood purely in terms of property rights. But their writings are nevertheless extremely valuable for addressing the topic of freedom and the market, as they can help us to raise questions that have been neglected in the current debates: is the economic freedom of a market society *just that*, or does it relate to other, conceptually richer notions of freedom?

<sup>3</sup> Cf. chaps 2.5 and 3.4 of this volume. For a summary of contemporary arguments about negative freedom in the market see e.g. Satz, *Why Some Things Should Not Be for Sale*, 122.

<sup>4</sup> Gerry A. Cohen, 'Capitalism, Freedom and the Proletariat', in Alan Ryan (ed.), *The Idea of Freedom. Essays in Honour of Isaiah Berlin* (Oxford: Oxford University Press, 1979), 9–25, 12. See also Olsaretti, *Liberty, Desert and the Market*, chaps IV–VI for a detailed criticism of Nozick's notion of voluntariness along similar lines.

<sup>5</sup> Cf. for example the telling title of Philippe van Parijs's book, *Real Freedom for All: What (if Anything) Can Justify Capitalism?* (Oxford: Oxford University Press, 1998).

I approach this topic in two steps, addressing two worries that have often been raised about freedom understood as the absence of obstacles. The first worry is how the freedom that individuals have in a market society relates to autonomy. Do they use their freedom to lead authentic, self-governed lives—or are they driven into mindless consumerism, acting on desires that are not truly their own? And if so, what is the value of negative liberty? As we shall see, Smith and Hegel see both opportunities—and these are often overlooked in contemporary debates—and risks for individual autonomy in the market. Looking in the third section at the remedies suggested by Smith and Hegel, it turns out that *both* care not only about liberty as the absence of obstacles, but also about people's ability to act autonomously. Their arguments refute the insistence by thinkers like, for example, von Hayek that it is sufficient to focus on negative liberty alone—it also matters whether the 'space' of negative freedom can be used in ways that allow for autonomous decision-making and personal growth.

The second worry, discussed in the fourth section, concerns the stability of a social system within which people have wide-ranging economic freedom: would the forces of the free market not destroy it, undermining the very conditions of freedom? Would we not need some mechanisms of collective self-government that can resist these forces? Here, Smith and Hegel present us with two different models. For Smith, providing people with far-reaching negative freedom has a positive impact on the stability of society, leading to a *self-reinforcing* process that also leads to richer kinds of freedom. For Hegel, negative freedom is highly valuable, but as it is potentially self-undermining rather than self-reinforcing, it needs to be *supplemented* by institutions that secure richer notions of freedom.

In the conclusion I summarize the resulting theses: as soon as one leaves a purely abstract level and asks about the concrete realization of freedom, it becomes clear that conceptual debates about what freedom 'is' are not enough. Rather, what is needed is the right balance between different aspects of freedom, which can look different in different historical settings. In discussing which aspects of freedom are present or absent in a given society at a given point in time, the social context, including, prominently, the market, plays a crucial role. Different pictures of the market lead to different conceptualizations of the ways in which different aspects of freedom are related, and what political measures are needed in order to secure a well-balanced combination of freedoms for citizens. Rather than pitting abstract concepts against one another, an account of a liberal society needs to address the relations between the different conceptions and dimensions of freedom that we have inherited from our intellectual tradition.

## 6.2 THE MARKET AND AUTONOMY

Economists assume by default, in many of their models, that agents 'maximize their preference satisfaction'. This assumption, however, obfuscates crucial questions about *how* individuals form their preferences and act on them: are they helpless victims of visceral drives, or do they act on values and principles they

themselves have chosen? This question can be addressed with the help of the concept of autonomy. It has two aspects.<sup>6</sup> There is, first, the ‘competence condition’: does one have the *ability* to act on one’s preferences without systematic self-deception or lack of will power? A second condition is the ability to act *on one’s own* preferences, on desires that one has reflected on, can endorse and identify with. This has been called the ‘authenticity condition’; it relates to the tradition of freedom understood as personal growth and individuality, as for example in John Stuart Mill.<sup>7</sup> In asking how the economic liberty of a market society bears upon autonomy, it is helpful to distinguish these two aspects, and to ask how each is influenced by the market in the different ways in which Smith and Hegel describe it.

The positive effect of the market on the competence to act autonomously is owed to the fact that it offers citizens the opportunity to learn autonomous behaviour, because it educates them to rely on themselves and to interact with others as independent agents. As we have seen, Smith provides an elaborate account of the virtues and about how the market provides incentives to acquire (some of) them, in particular, prudence, the ability to act in one’s own long-term interest.<sup>8</sup> Individuals must develop self-command to overcome their short-term desires and to take into account other people’s wishes and preferences. This teaches them to control their spontaneous emotions and to think about the wider implications of their actions. Smith’s positive descriptions of independent workmen show that he takes them to be better able to orientate themselves in the world and to act autonomously than most, if not all, members of a feudal society.<sup>9</sup> Workers often invent machinery, whereas slaves are ‘very seldom inventive’, as they have no incentive to improve the work process.<sup>10</sup> People who work for their own profits have ‘much greater spirit and alacrity for their work’ than slaves or dependent tenants.<sup>11</sup> As commercial society turns the bulk of the population from quasi-slaves—feudal tenants—into independent workers, they acquire ‘spirit’ and ‘alacrity’, which improves their competence to act autonomously.

Importantly, these traits are useful not only for one particular task, but for a broad range of projects and life plans. Smith’s ‘bourgeois virtues’ share with the Aristotelian virtues a teleological structure: they serve the happiness of those who practise them. But for Smith, in contrast to Aristotle, the virtues do not

<sup>6</sup> This distinction has been drawn by a number of contemporary commentators on autonomy; for a summary statement see John Christman, ‘Autonomy in Moral and Political Philosophy’, in Edward N. Zalta (ed.), *The Stanford Encyclopedia of Philosophy* Fall 2009 edition [online] <<http://plato.stanford.edu/archives/fall2009/entries/autonomy-moral/>> (accessed 13 June 2012).

<sup>7</sup> John Stuart Mill, *On Liberty and Other Essays*, ed. John Gray (Oxford: Oxford University Press, 2008), esp. chap. 3.

<sup>8</sup> Cf. chap. 5.2 of this volume.

<sup>9</sup> One might think that the feudal lords, at least, had more opportunities to practise autonomous behaviour. But Smith describes the landowners of his own time as ‘not only ignorant, but incapable of that application of mind which is necessary in order to foresee and understand the consequences of any public regulation’ (WN I.XI.Concl.8), explicitly connecting this to the fact that they do not work. The same might hold for the feudal landowners of earlier times.

<sup>10</sup> WN I.I.8, cf. also WN IV.IX.47, LJ(A) 346.

<sup>11</sup> LJ(A) 186.

presuppose a 'universal and final end of the *telos* itself';<sup>12</sup> rather, they enable people to live different kinds of lives while being in harmony with themselves and with society.<sup>13</sup> Self-command, to take the paradigmatic case, is needed for all kinds of endeavours; it is the virtue from which 'all the other virtues seem to derive their principal lustre'.<sup>14</sup> In educating citizens in good judgment and self-command, the market thus guides them towards autonomy.

The same idea—that the market society educates its members—can also be found in Hegel, in the argument that individuals receive *Bildung* in civil society.<sup>15</sup> As discussed earlier, the labour that individuals perform in a market economy teaches them to distance themselves from their immediate, natural instincts, as they need to take into account the wills of others, both co-workers and customers.<sup>16</sup> This 'moment of liberation intrinsic to work'<sup>17</sup> can be understood as the acquired ability to act on self-set purposes, and hence as a step towards autonomy.<sup>18</sup>

Thus, living in a market society can help people to develop competence for autonomous action. In fact, this educational dimension of the market can show a rather grim face: if people are *not* prudent and self-controlled, they put at risk the social and material well-being of both themselves and their families. Smith speaks of the 'discipline' that customers have over a workman,<sup>19</sup> while Hegel holds that the universality of civil society presents itself as 'necessity', since it is 'by compulsion that the particular rises to the form of universality'.<sup>20</sup> In a market society citizens are fully responsible for their own behaviour, whether they like it or not, and this offers them the opportunity for, *and necessity of*, learning to act autonomously.<sup>21</sup>

But the market offers not only chances, but also risks for people's competence to act autonomously. In Smith, these stem mainly from the increasing division of labour. Whereas book I of the *Wealth* is full of praise for its positive effect on efficiency, book V is more cautious and even pessimistic. In a passage that anticipates worries later articulated by Karl Marx or Émile Durkheim, Smith holds that workers who are confined to 'a few very simple operations' have 'no occasion to exert [their] understanding, or to exercise [their] invention in finding

<sup>12</sup> M. J. Calkins and Patricia Werhane, 'Adam Smith, Aristotle, and the Virtues of Commerce', *Journal of Value Inquiry* 32(1) (1998), 43–60, 50.

<sup>13</sup> Cf. in particular Fleischacker, *A Third Concept of Liberty*, 7, 150 and *passim*. As Fleischacker emphasizes, Smith does not need to answer the question about the final end of human life as morality consists for him in propriety, not in utility towards any end.

<sup>14</sup> TMS VI.III.11.

<sup>15</sup> This parallel is also drawn by Frederick Neuhaus, 'The Wealth of Nations and Social Science', *The Adam Smith Review* 2 (2006), 234–8, 234.

<sup>16</sup> Cf. chap. 4.3 of this volume.

<sup>17</sup> PR §194.

<sup>18</sup> Cf. similarly R. M. Wallace, 'How Hegel Reconciles Private Freedom with Citizenship', *Journal of Political Philosophy* 7(4) (1999), 419–33, 429.

<sup>19</sup> WN I.X.II.31.

<sup>20</sup> PR §186, cf. Neuhaus, *Foundations of Hegel's Social Theory*, 149f., for a discussion.

<sup>21</sup> Some insurance for bad luck is provided, at least in Hegel's account, by the police and the corporations. But he does not make clear whether these protective measures are also effective in cases of self-imposed problems, for example if someone loses his fortune by gambling or has to leave his corporation because he has violated its code of honour.

out expedients for removing difficulties which never occur'. Under such circumstances a worker becomes

as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him, not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country, he is altogether incapable of judging; and unless very particular pains have been taken to render him otherwise, he is equally incapable of defending his country in war.<sup>22</sup>

Smith takes this to be a specific problem of commercial society where most people work in manufacturing rather than in agriculture, which is a work that demands much more 'judgment and discretion'. In this respect 'improved and civilized' societies are alarmingly inferior to their predecessors: in 'barbarous societies' people have more diverse tasks and take part in warfare and in the government of their country.<sup>23</sup> In contrast, the workers of commercial society—the 'great body of the people'—are in a situation that is extremely deleterious to the development of their full capacities, contrary to what commercial society seemed to promise. If the labourers are mentally mutilated, they are not able to take part in the exchange of sympathy with others. Their incapacity to share 'any generous, noble, or tender sentiment' threatens Smith's whole framework of a commercial society that is held together by sympathy and shared moral sentiments.<sup>24</sup> Lacking education and occasions for practising their mental abilities, the workers are more prone to fall into political faction or religious fanaticism, which Smith fears as some of the most dangerous threats to the stability of society.<sup>25</sup>

The negative effects of the division of labour on the workers' minds are also present in Hegel's picture of the market, at least in the Jena manuscripts. He describes how the labourer is 'constricted' to 'a single point', and through the mechanization of labour 'a vast number of people are condemned to a labour that is totally stupefying, unhealthy, unsafe—in workshops, factories, mines, etc.—shrinking their skills'.<sup>26</sup> In the *Philosophy of Right*, this worry is not addressed explicitly, but Hegel holds that the 'subdivision and restriction of particular jobs' leads to 'dependence and distress' and the 'inability to feel and enjoy the broader

<sup>22</sup> WN V.I.III.II.50, cf. also LJ(B) 539.

<sup>23</sup> WN V.I.III.II.51, cf. LJ(B) 540f.

<sup>24</sup> Cf. e.g. Andrew S. Skinner, *Adam Smith and the Role of the State* (Glasgow: Glasgow University Press, 1974), 15f.

<sup>25</sup> Cf. e.g. TMS III.III.43, VI.II.III.13, WN V.I.III.III.7, V.I.III.III.36. A further problem is the loss of what Smith calls 'martial spirit': men become 'effeminate and dastardly' (LJ(B) 540), they 'regard with abhorrence the irregular, uncertain, and adventurous life of a soldier', and become physically unable to 'exert [their] strength with vigour and perseverance' (WN V.I.III.II.50). Cf. also chap. 2, n. 101 of this volume.

<sup>26</sup> *Jenenser Realphilosophie II*, 139. On the similarities of Hegel's formulations in this and other texts to passages in Smith and Ferguson see Waszek, 'The Division of Labor: From the Scottish Enlightenment to Hegel', 72f. In the *Philosophy of Right* Hegel adds a new element: he states that work becomes 'more and more mechanical, until finally man is able to step aside and install machines in his place' (PR §198, cf. also Enc §526). This is a bold prediction, for which no equivalent can be found among the Scottish writers (cf. Waszek, *The Scottish Enlightenment and Hegel's Account of 'Civil Society'*, 226).

freedoms and especially the intellectual benefits of civil society', which can be read as related to the division of labour.<sup>27</sup>

With regard to *competence* for autonomy, the market thus offers a mixed picture. Autonomy, however, also has to do with the *authenticity* of desires and preferences and the processes in which they are formed. The idea that individuals should lead authentic lives, guided by their own ideas rather than blindly following traditions and social roles, is one of the defining features of modernity, at least as it is understood by its defenders. Its most famous advocate is maybe John Stuart Mill, who discusses it under the heading of 'individuality'. For Mill, who builds on ideas brought forward by Wilhelm von Humboldt, individuality is 'one of the principal ingredients of human happiness, and quite the chief ingredient of individual and social progress', whereas '[h]e who lets the world . . . choose his plan of life for him, has no need of any other faculty than the ape-like one of imitation'.<sup>28</sup> While Mill's account rings a rather elitist note, the ideal of a self-governed life has achieved wider acclaim, and has become one of the central elements of the self-understanding of the Western world.<sup>29</sup> When one asks about the relation between authenticity and the market, one thus explores one of the central promises of modern society. In Smith's and Hegel's accounts, however, this relation is a complex one.

First of all, the market offers a greater range of options to choose from with regard to consumption and ways of life. At first glance, this might seem relevant only for liberty as the absence of obstacles, which also has to do with the number and quality of options to choose from.<sup>30</sup> But individuals can learn to be authentic only if they can choose between genuinely different, meaningful options. The notion of authentic choice would not make sense without real alternatives to choose from. This explains why this ideal gained prominence in a period when the grip of customs and traditions on people's lives loosened and individuals had an opportunity to exercise their 'mental and moral' powers, which, as Mill notes, 'like the muscular powers, are improved only by being used'.<sup>31</sup> Once the responsibility for his or her life is shifted to each individual, as Smith and Hegel conceptualize it, the question whether people make decisions that are 'their own' becomes unavoidable. While such questions do not *only* concern economic issues, in a market society decisions in the economic realm, especially about one's professional activities, can certainly offer an opportunity for reflection and authentic choice.

The question is, however, whether decisions are in fact taken in this way. Many critics of the market have voiced the concern that the content of people's preferences is precisely *not* authentic, but determined by external forces, by the ups and downs of fashion, or by the regard for what others have, so that people are driven to ever higher levels of consumption without really wanting or needing it.<sup>32</sup> Worse,

<sup>27</sup> PR §243, cf. also Richard Bellamy, 'Hegel and Liberalism', *History of European Ideas* 8(6) (1987), 693–708, 700ff.

<sup>28</sup> *On Liberty and Other Essays*, 68, 71.

<sup>29</sup> Cf. in particular Charles Taylor, *The Ethics of Authenticity* (Cambridge, MA: Harvard University Press, 1992), esp. chap. 2.

<sup>30</sup> Cf. e.g. Berlin, *Two Concepts of Liberty*, 15.

<sup>31</sup> Mill, *On Liberty and Other Essays*, 71.

<sup>32</sup> Cf. e.g. Barry Schwartz, *The Costs of Living. How Market Freedom Erodes the Best Things in Life* (New York/London: W. W. Norton, 1994).



the fear *not* to consume enough, not to 'keep up with the Joneses', can be a source of serious psychological affliction.<sup>33</sup> Similar worries were already raised in the 18th century, most prominently by Rousseau. For him, the fact that modern man lives 'always outside himself' 'in the opinion of others' is one of the great ills of commercial society.<sup>34</sup> Smith and Hegel are familiar with this charge against modern society, and react to it in similar ways.

Smith's reflections on this topic are connected to his account of sympathy. He freely admits that human beings try to gain other people's attention and sympathy not only through virtuous behaviour, but also through the possession of material goods and external distinctions, 'honours and preferments'.<sup>35</sup> 'To be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation' is what often drives men to acquire wealth and status—it is 'the vanity, not the ease, or the pleasure, which interests us'.<sup>36</sup> Smith's explanation for this phenomenon is simple: the world is more interested in men 'of rank and distinction', and follows their 'joy and exultation' with great attention, whereas '[t]he poor man goes out and comes in unheeded'<sup>37</sup>—therefore most people want to belong to the former group rather than the latter.

But for Smith the desire for luxury has a further dimension: the seduction by the 'beauty' of the 'appearance of utility', which is 'often the secret motive of the most serious and important pursuits of both private and public life'.<sup>38</sup> In fact, Smith even speaks of a 'deception' that nature has put into place when providing human beings with this desire:

It is well that nature imposes upon us in this manner. It is this deception which rouses and keeps in continual motion the industry of mankind. It is this which first prompted them to cultivate the ground, to build houses, to found cities and commonwealths, and to invent and improve all the sciences and arts, which ennoble and embellish human life.<sup>39</sup>

Smith is apparently torn in his evaluation of the desire for luxury. In 'time of sickness or low spirits', he says, we incline towards a 'splenetic philosophy' that despises the 'great objects of human desire', whereas when we are 'in better health and in better humour', we regard them as 'something grand and beautiful and noble'.<sup>40</sup> It has been a matter of dispute in Smith scholarship whether luxury consumption is needed to fuel the Smithian economy.<sup>41</sup> The question we need to

<sup>33</sup> Cf. e.g. Alain de Botton's book on *Status Anxiety* (London: Hamish Hamilton, 2004).

<sup>34</sup> Rousseau, *The Discourses and Other Early Political Writings*, 187. In addition, there is, of course, the old Christian tradition of condemning 'luxuria' and 'avaritia' as cardinal sins. On the historical development of views on 'luxury' see Berry, *The Idea of Luxury*.

<sup>35</sup> TMS II.II.2.1.

<sup>36</sup> TMS I.III.II.1.

<sup>37</sup> TMS I.III.II.1.

<sup>38</sup> TMS IV.I.6.

<sup>39</sup> TMS IV.I.10.

<sup>40</sup> TMS IV.I.9.

<sup>41</sup> This position is held by Griswold, who concludes that if Smith's system is built on luxury consumption it is based on 'a large-scale mistake in our understanding of happiness' (*Adam Smith and the Virtues of Enlightenment*, 222, 224). Against this, Fleischacker holds that for Smith, '[t]he whole expence of the inferior is much greater than that of the superior ranks' (WN V.II.IV.43, cf. *On Adam Smith's Wealth of Nations*, 109, 118). When an economy grows, however, it seems that the 'expence of

ask in the present context, however, is whether the desire for luxury is also detrimental to autonomy, acting on people as a force they cannot control and reflectively endorse, drawing them into inauthentic forms of behaviour. The central problem with luxury consumption is that it fails to achieve what it ultimately aims at: happiness. Smith mentions the 'loss of liberty', 'all that toil, all that anxiety, all those mortifications', and the loss of 'all that leisure, all that ease, all that careless security' which people undergo in order to climb the social ladder.<sup>42</sup> The 'baubles and trinkets' they desire are 'fitter to be the play-things of children than the serious pursuits of men'.<sup>43</sup> Smith describes the case of a 'poor man's son', who seems to be precisely the kind of character Rousseau decries. This young man 'admires the condition of the rich' and labours day and night in order to arrive at this condition himself.<sup>44</sup> Not only does he give up all the simple pleasures of life and the company of his friends,<sup>45</sup> he also 'makes his court to all mankind; he serves those whom he hates, and is obsequious to those whom he despises'.<sup>46</sup> He is driven by a desire he does not question, with little chance to detect his erroneous assumptions about what happiness consists in: only at the end of his life does he understand that 'wealth and greatness are mere trinkets of frivolous utility, no more adapted for procuring ease of body or tranquillity of mind than the tweezer-cases of the lover of toys'.<sup>47</sup> As Darwall argues, the poor man's son's admiration for the rich also leads to distorted moral judgments: rather than aiming at what an impartial spectator would approve of, he strives for approval by the rich and powerful, mistaking social standing for moral authority.<sup>48</sup> The narrative of the poor man's son thus provides a vivid example of the inauthenticity into which modern man can fall in a market society, failing to live a fully human life.<sup>49</sup>

A similar awareness of the problem of 'keeping up with the Joneses' and the inauthenticity of many consumption decisions can also be found in Hegel's account of civil society, and it is equally tied up with the notion of emulation. Although, as we have seen, for Hegel the liberation from purely biological needs is an aspect of the development towards freedom in human history, it can lead to psychological afflictions. Men want to be equal with others (preferably with those

the inferior [ranks]' is turned more and more towards luxury consumption as well, so Fleischacker's argument cannot completely solve the problem. It is true that for Smith wealth and poverty are relative (WN V.II.IV.II.3, cf. Fleischacker, *On Adam Smith's Wealth of Nations*, 119), but when the tide is rising, more and more people will be able to acquire things that they are attracted to out of the deceptive nature of the 'appearance of utility'.

<sup>42</sup> TMS I.III.II.1.

<sup>43</sup> WN III.IV.15; cf. also TMS IV.I.10, TMS IV.I.5f., WN II.III.38, WN III.IV.15, WN V.I.II.7. Cf. also TMS III.III.31f. on the human tendency to overestimate the influence of external factors on human happiness.

<sup>44</sup> TMS IV.I.8.

<sup>45</sup> Cf. also Rasmussen, *The Problems and Promise of Commercial Society*, 86.

<sup>46</sup> TMS IV.I.8.

<sup>47</sup> TMS IV.I.8.

<sup>48</sup> Stephen Darwall, 'Smith's Ambivalence about Honour', in Vivienne Brown and Samuel Fleischacker (eds.), *The Philosophy of Adam Smith. The Adam Smith Review, 5: Essays Commemorating the 250th Anniversary of The Theory of Moral Sentiments* (London/New York: Routledge, 2010), 106–23.

<sup>49</sup> Cf. also Fleischacker, *On Adam Smith's Wealth of Nations*, 106f.

who have more), but they also wish to be different ('to assert [themselves] in some distinctive way'), which is another source of the 'multiplication of needs and their expansion'.<sup>50</sup> Torn between the desire to be similar and the desire to be distinct, it seems wholly possible that the members of the Hegelian civil society will fall into an inauthentic strife for ever more goods.<sup>51</sup> This is a particular risk for the members of the business class: if they do not belong to a corporation, they fall exactly into the kind of endless striving criticized by Rousseau:

Unless he is a member of an authorized Corporation . . . an individual is without rank or dignity, his isolation reduces his business to mere self-seeking, and his livelihood and satisfaction become insecure. Consequently, he has to try to gain recognition for himself by giving external proofs of success in his business, and to these proofs no limits can be set.<sup>52</sup>

As Schmidt am Busch notes, this endless desire is a misplaced desire for the recognition that the members of a corporation receive from their colleagues for their professional achievements.<sup>53</sup> Without such membership, individuals have no 'sense of an appropriate level of consumption' and can fall into a 'continual, irritable search for more and more'.<sup>54</sup> The person who has no status as a member of a corporation looks very much like Smith's 'poor man's son': unhappy, inauthentic, and driven by externally created desires.

Smith's and Hegel's accounts of the market society, different as they are in many respects, thus show a surprising similarity when it comes to the opportunities and risks for autonomy. The market is a mixed blessing for the competence of agents and their ability to lead authentic lives. The fact, however, that Smith and Hegel both suggest counter-measures shows that they are not content with negative liberty in the sense of uninhibited choice, but that autonomy, both as competence and as authenticity, does matter for them.

### 6.3 'ENRICHING' ECONOMIC FREEDOM

Smith and Hegel both accept *and* go beyond liberty as the absence of interference. This fact corrects the picture of Smith as a proponent of a purely negative conception of liberty and that of Hegel as a thinker of positive liberty only, and offers an opportunity for reflecting on their reasons for developing a more complex understanding of freedom.

With regard to the problem of the division of labour and its effects on the workers' minds, Smith is optimistic that it can be overcome by government

<sup>50</sup> PR §193.

<sup>51</sup> Hegel describes this as a 'bad infinity' that is never satisfied (Hotho, 575, cf. also Griesheim, 475ff.). The problem is exacerbated by the fact that the producers of goods reinforce this desire for ever more refined products (Griesheim, 493).

<sup>52</sup> PR §253.

<sup>53</sup> Schmidt am Busch, *'Anerkennung' als Prinzip der kritischen Theorie*, chap. 5.

<sup>54</sup> Muller, *The Mind and the Market*, 158f.

action.<sup>55</sup> Through public education, the government can and should 'prevent the almost entire corruption and degeneracy of the great body of the people'.<sup>56</sup> Smith famously calls for the establishment of 'a little school' in 'every parish or district', where the children of the 'common people' are taught 'to read, write, and account'.<sup>57</sup> This counteracts the stultifying effects of specialized work and contributes to a flourishing life, as 'happiness and misery, which reside altogether in the mind, must necessarily depend more upon the healthful or unhealthful, the mutilated or entire state of the mind, than upon that of the body'.<sup>58</sup>

The state has a duty to address this problem, even if, counterfactually, it 'derive[d] no advantage' from it.<sup>59</sup> As Samuel Fleischacker emphasizes, Smith envisages a society in which people can 'judge for themselves'.<sup>60</sup> The government of such a society must 'both make the conditions for judgment readily available *and* stand back from people's decisions once they have had the chance to use the conditions'.<sup>61</sup> The subjects taught in Smith's 'little schools' precisely serve this purpose: they help people to orientate themselves in an increasingly complex commercial world, enabling them to make better choices without forcing them into one direction or other.

A similar concern for public education where domestic education is insufficient can be found in Hegel. He explicitly notes that children whose families are unable to educate them need to be educated by the state and that in general education needs to be supervised by the state.<sup>62</sup> Although he admits that parents have a right to educate their children, society can compel them to go to school.<sup>63</sup>

Smith and Hegel share the same idea: where the economic structures prevent the development of the citizen's capacity to act autonomously, the state has to take action: it has to provide the means for securing at least a basic level of autonomy, without which actions could not be ascribed to individuals as responsible agents. The aim is *not* to prescribe any ideal of what 'an' autonomous life would look like, but to make sure that agents reach a certain threshold of autonomy, from which they can develop higher levels of individual positive freedom on their own. Their suggestions concern, in John Christman's terms, the *ways* in which desires are formed and acted upon, without touching the *contents* of people's preferences.<sup>64</sup>

The measures Smith and Hegel suggest may seem insufficient from today's perspective. But they provide a model for how to think about the competence

<sup>55</sup> WN V.I.III.II.50, cf. also LJ(B) 539. Cf. also the formulation in LJ(A) 353: 'The effects of commerce, both good and bad, *and the naturall remedies of the latter*' (italics added).

<sup>56</sup> WN V.I.III.II.49.

<sup>57</sup> WN V.I.III.II.52f. In addition to the 'little schools' Smith recommends obligatory examinations for those who want to 'obtain the freedom in any corporation, or be allowed to set up any trade either in a village or town corporate' (WN V.I.III.II.57) or want to exercise a 'liberal profession, or be received as a candidate for any honourable office of trust or profit' (WN V.I.III.III.14).

<sup>58</sup> WN V.I.III.II.60.

<sup>59</sup> WN V.I.III.II.61. Smith notes, however, that the government profits from having a more educated population, as it is more 'decent and orderly' and less likely to be misled into opposition to government measures (cf. chap. 5, n. 174 of this volume).

<sup>60</sup> Fleischacker, *A Third Concept of Liberty*, e.g. p. 7.

<sup>61</sup> Fleischacker, *A Third Concept of Liberty*, 19.

<sup>62</sup> PR §239Z, cf. Hotho, 555, 701f., Griesheim, 602.

<sup>63</sup> PR §239.

<sup>64</sup> John Christman, 'Liberalism and Individual Positive Freedom', *Ethics* 101 (1991), 343–59.

condition for autonomous judgment in a market society. They remind us that the defenders of a liberal market society, in which individuals are free to take on responsibility for their own lives, need to ask how everyone can be enabled to do this. Otherwise it exposes those who are not able to make deliberate, competent decisions to the risk of being exploited by others who are abler. This concerns in particular the education of children, but is by no means limited to it; it can also relate, for example, to the provision of information about certain goods that are sold in markets. Such measures—as well as the taxation necessary to cover their costs—may indeed lead to minor limitations on negative liberty. But they make sure that everyone has a chance to make decisions that are free not only in the sense that they are unhindered by external circumstances, but also in the sense that they are made by agents who are competent to do what is in their own interest. Without this competence, negative freedom is a rather bloodless ideal: a sphere of negative freedom in which one is unhindered seems hardly worth fighting for without the ability to orientate oneself in the world and to make choices in one's own long-term interest.

Smith's and Hegel's suggestions diverge on how people can avoid the mindless consumerism to which market society may seduce them. Both agree on a basic point, however: the argument for economic freedom is *not* that people should greedily maximize their profits at the cost of other values, irrespective of what these are. Smithian 'prudence' is not restricted to monetary gains, but also includes the 'care of the health, of the fortune, of the rank and reputation of the individual',<sup>65</sup> and the greatest challenge may often be to *balance* these different goods. In addition, it seems to be an assumption too obvious to be mentioned explicitly in both his and Hegel's accounts that individuals often strive for material goods not only for themselves, but also for their families.<sup>66</sup> Neither Smith nor Hegel advocate what has later been caricatured as 'economic man', man turned into a profit-maximizing machine. Nor do they anticipate the idea of Chicago school economists, in particular Gary Becker, that *all* human behaviour, from the decision to have children to criminal behaviour, should be understood as resulting from the maximization of expected outcomes.<sup>67</sup>

The narrow pursuit of self-interested material goals, while being *made possible* in the commercial societies envisaged by Smith and Hegel, is by no means their ideal of a good life. On the contrary: one of the reasons why they endorse commercial society is that it makes possible a wide range of *different* ways of life and the pursuit of different values—the kind of variety and plurality Mill cherishes. These include, for example, political activity or endeavours in the arts and sciences.<sup>68</sup> If Smith had finished the other two books he intended to write, the

<sup>65</sup> TMS VII.5. On the difference between self-interested prudence and greed in Smith see also J. B. Wight, 'Adam Smith and Greed', *Journal of Private Enterprise* 21 (2005), 46–58.

<sup>66</sup> Cf. e.g. Hegel's reflections on 'family capital' in PR §170ff. In the Hotho lectures Hegel also holds that work that serves the aim of providing for one's family already overcomes the 'bad infinity' of boundless desire: it is work for a social whole that changes the individual's desires from 'the egoism of desire' into 'the care and acquisition for a common goal', something 'ethical' (Hotho, 539ff.).

<sup>67</sup> Cf. e.g. Gary S. Becker, 'Crime and Punishment: An Economic Approach', *The Journal of Political Economy* 76(2) (1968), 169–217.

<sup>68</sup> For Smith the 'progress of opulence' also supports the flourishing of arts, sciences, and culture, cf. e.g. LJ(A) 333ff., HA IV.21.

'Philosophical History of all the different branches of Literature, of Philosophy, Poetry and Eloquence' and the 'Theory and History of Law and Government',<sup>69</sup> it would have been much clearer that he cannot be claimed as the hero of those who see man as driven exclusively by economic concerns. In the *Theory* he praises not entrepreneurs, but rather 'heroes', 'statesmen and lawgivers', 'poets and philosophers', inventors, 'protectors, instructors, and benefactors of mankind' as examples of 'the most exalted virtue'.<sup>70</sup> For Hegel, it is equally clear that there are higher aims in life than pursuing commercial interests: there is not only the political dimension of life that stands above the battlefield of civil society; 'objective' *Geist* is not even the highest form of *Geist*. 'Absolute' *Geist*, the realm of art, religion and philosophy, comes *after* his reflections on the state, and presents an even higher form of reconciliation and freedom.<sup>71</sup> One does not have to accept the details of Hegel's account to share the view that art, religion, and philosophy—all conceived very broadly, as social practices in which people pursue a common good that cannot be adequately described in purely economic terms—can present alternatives to, or complement, the pursuit of self-interest in the market. For Hegel, living a life that focusses on narrow economic goals and overlooks these other dimensions of life, as well as the social relations in which they are practised, would be to miss important opportunities for human fulfilment.

The question thus becomes how the citizens of a market society become able to make autonomous, authentic choices from among these different options, rather than falling into a mindless pursuit of inauthentic desires. How can they make use in *their own* ways of the many opportunities that commercial society offers, rather than be driven by external forces?

Smith believes mainly<sup>72</sup> in the power of moral education, holding that '[t]he great secret of education is to direct vanity to proper objects'.<sup>73</sup> It seems to be mainly a matter of *private* education and mentorship that takes place within the family and in the 'circles of sympathy', among friends and neighbours.<sup>74</sup> The emulation of others, which often plays a negative role in consumerism, can also entice people to virtue, when the 'admiration of the excellence of others' serves as a motivation to aspire to excellence oneself.<sup>75</sup> The question thus is whether the moral resources of the private circles of commercial society are sufficient to provide young people with suitable role models and good educators, to make sure that they do not end up with the inauthentic ambition of the poor

<sup>69</sup> Corr. #248, cf. Ross, *The Life of Adam Smith*, 101, 305, 334ff. Smith's *Lectures on Rhetoric and Belles Lettres* (LRBL) provide an idea of what this history might have looked like.

<sup>70</sup> TMS III.II.35.

<sup>71</sup> Cf. Enc §553ff.

<sup>72</sup> Smith is not entirely opposed to taxation that supports prudent behaviour; cf. e.g. his remarks about taxes on luxury goods in WN V.II.III.6. On the whole, however, his account of taxation aims at efficiency and equity rather than the guidance of behaviour.

<sup>73</sup> TMS VI.III.46. For a discussion of Smith's views on moral education cf. in particular Hanley, *Adam Smith and the Character of Virtue*. He reads chapter VI of the 1790 *Theory* as an answer to the problems of 'commercial corruption' and underlines that Smith's view of moral education allows for true virtue and moral autonomy even if it *starts* from people's attention to the judgments of others.

<sup>74</sup> Cf. e.g. his rejection of boarding schools, TMS VI.III.10.

<sup>75</sup> TMS III.II.2.

man's son, but learn to choose wisely and with self-command.<sup>76</sup> A successful moral education enables individuals to strike the delicate balance that commercial society demands for leading a good life: pursuing one's interests, but not being driven by them, distinguishing between self-interest in the economic realm, where it can be beneficial, and egoism in the private circles or the realm of politics, where it can be disastrous. Smith's virtuous citizen can admit that the preservation of 'external fortune' is necessary in order to gratify the natural appetites with 'care and foresight',<sup>77</sup> but does not fall into a mindless striving for ever more goods. He is not insensitive to opportunities for profit and the acquisition of honour, but acquires a 'noble firmness' and 'exalted self-command, which is founded in the sense of dignity and propriety'.<sup>78</sup> Smith's *Theory* can in fact be read as an appeal to self-command and virtue, explaining how they can be achieved and thereby inviting its readers to practise them.<sup>79</sup>

Hegel's solution to the problem of inauthentic desires is different; it is not limited to the private realm, but reaches into civil society itself. For him the corporations—professional institutions, supervised by the state<sup>80</sup>—offer a realm in which individuals can overcome the risk of unbridled consumerism. If one is recognized by the members of one's corporation, one does not have to strive for recognition by the consumption of luxuries, but can adopt an established way of life.<sup>81</sup> Life in the corporations goes beyond pure self-interest, as the members strive for a common aim and organize care for other members who have fallen into distress.<sup>82</sup> Individuals become engaged in the running of the corporation and its internal politics.<sup>83</sup> When performing these tasks, they have to take into account wider, more 'political' considerations than in their private business, and act collectively rather than individually.<sup>84</sup> This means that they are exposed to the opinions and judgments of others, which can help them to reflect on their views, to defend them against criticism, and to come to more authentic choices.

The corporations, however, are limited, partial social units, and as discussed earlier, it is not clear whether they are able—together with the police—to tame the economy. As we shall see, for Hegel the logical consequence of the movement towards the corporations is the 'sublation' of civil society in the state. What should be noted, however, is that in contrast to Smith, learning to make authentic choices

<sup>76</sup> The importance of self-command for distinguishing between real and imagined needs in Smith's account is emphasized in particular by Ignatieff ('Smith and Rousseau', 94ff.).

<sup>77</sup> TMS VII.1.2f.

<sup>78</sup> TMS VI.III.18.

<sup>79</sup> Cf. Muller, *Adam Smith in His Time and Ours*, 103.

<sup>80</sup> PR §255.

<sup>81</sup> PR §253, cf. also Grisheim 617ff. For a discussion see e.g. G. Heiman, 'The Sources and Significance of Hegel's Corporate Doctrine', in Z. A. Pelczynski (ed.), *Hegel's Political Philosophy: Problems and Perspectives* (Cambridge: Cambridge University Press, 1971), 111–35.

<sup>82</sup> These activities include choosing new members, protecting each other against 'particular contingencies', and educating others to become members.

<sup>83</sup> PR §252.

<sup>84</sup> Cf. also PR §289 on the politics of the corporation, which Hegel describes rather critically, but holds that this sphere is 'left to the moment of formal freedom' and 'affords a playground for personal knowledge, personal decisions and their execution, petty passions and conceits', with 'self-satisfaction and vanity' playing an important role in it. But such behaviour is nonetheless 'permissible' in this realm and does not seriously affect the state's effectiveness.

for Hegel takes place in the economic realm itself, considerably limiting the economic side of people's negative freedom.<sup>85</sup> But Hegel would probably argue that being a member of a corporation adds more to one's life in terms of freedom than it takes away from it. After all, he describes them as voluntary organizations, entered by free and legally independent individuals who see that on the whole their interests are furthered. This argument points to an important question: if negative freedom is defined as the absence of obstacles, how should we evaluate 'obstacles' to, or limitations on freedom more broadly, that are self-imposed, or which can be rationally endorsed? It is this question that leads us to positive freedom in the sense of collective self-determination.

#### 6.4 THE SOCIAL STRUCTURES OF FREEDOM

What matters about freedom in the market, for both Smith and Hegel, is not only freedom in the negative sense, but also how the citizens of a commercial society are enabled to lead autonomous lives. Although the details of their account on how to achieve autonomy differ, they concur in the awareness that a liberal society has to take this question into account and take measures to ensure that this liberty is within the reach of all citizens. As mentioned at the outset, however, there is a second worry about negative liberty that concerns the stability of the social whole in which it has a place.

To make clear the nature of this worry it is helpful to recall the general structure of Smith's and Hegel's theories of a liberal society. Both conceptualize a society in which different social spheres function according to different principles. Smith's famous quotation about the self-interest of 'the butcher, the brewer, or the baker' is preceded by the argument that men in 'civilized society' need to cooperate with a much greater number of people than they can win as friends.<sup>86</sup> This indicates that different forms of behaviour—logics of agency, as one might call them—are appropriate in different spheres. Smith is very clear in his condemnations of those merchants and manufacturers who try to extend the logic of self-interest into the *political* sphere, to influence the setting of rules. The normative standard for politics should be the impartial spectator, not self-interest. Smith's reflections on the concentric structure of sympathy equally indicate that different logics of agency should rule in different spheres: in the intimate circles of family and friends benevolent behaviour has its place, whereas in the market self-interest within the limits of justice is appropriate.<sup>87</sup> A similar distinction between different logics of agency shapes Hegel's system: the family is 'characterized by love', it is a unity of 'feeling';<sup>88</sup> in civil society self-interested 'particularity' has its place;

<sup>85</sup> In the Griesheim lectures Hegel addresses this issue, arguing that it is not clear that the abolition of the corporations really leads to a freer market, as it might rather facilitate the formation of cartels (Griesheim, 625ff.). This, again, is more likely on a Hegelian picture of the market than on a Smithian picture.

<sup>86</sup> WN I.II.2.

<sup>87</sup> TMS VI.II.11ff., cf. chaps 2.5–6 of this volume.

<sup>88</sup> PR §158.



whereas the political sphere is the realm of 'universality'.<sup>89</sup> As has been noted, the structure of Smith's and Hegel's accounts thus resembles contemporary 'pluralist' theories of justice, notably Walzer's account of 'spheres of justice',<sup>90</sup> in that a just society is one in which different principles have their place in different spheres.

The logic of agency of the market is self-interest, and it is a central aspect of negative liberty that people are here *allowed* to follow their self-interest, even if it may not be the choice of a virtuous, autonomous person to strive unconditionally for material goods. But self-interest is *not* the appropriate logic of agency in other social spheres. The great challenge for a differentiated society along the lines that Smith and Hegel describe is how to draw—and to secure—the boundaries between these spheres. People must know which logic of agency is appropriate for which sphere, and act on this knowledge. The danger to which such a society is exposed is that these boundaries get blurred; for example, that one logic of agency comes to dominate all spheres.

The danger from negative liberty—especially in its economic dimension—with regard to the stability of a differentiated society thus is that it might undermine other social spheres that should follow different logics and that are indispensable for social stability. Jürgen Habermas has coined the phrase 'colonization of the life-world': the 'life-world' is invaded by the 'system' that comprises the political and economic sphere.<sup>91</sup> The scenario that Habermas and similarly inclined thinkers dread is a society that is completely dominated by economic concerns, in which money is the only currency and everything has a price, but nothing a value.<sup>92</sup> Not only would such a society fail to provide space for central aspects of human life, it would also be inherently unstable and undermine its own bases; even defenders of a purely negative conception of liberty should therefore be wary to recommend it as an ideal.

Thus, the question is how Smith and Hegel answer this worry about the 'colonizing' and 'self-undermining' tendencies of the market and its negative freedom. It is here that we encounter the different structures in the relation between negative freedom and other aspects of freedom sketched at the outset.

Smith is often seen as a defender of negative freedom. But one central reason why he focusses so much on negative freedom is that he takes it both that the citizens of a society in which there is a lot of negative liberty will lead more autonomous lives *and* that such a society will be more stable and better able in the long run to secure the rights and freedoms of its citizens. It is this tendency of negative liberty both to reinforce itself and to lead, automatically, as it were, to richer notions of freedom that we need to explore further.

The foil against which Smith paints his vision of commercial society is feudalism, that is, a society dominated by a few rich and powerful lords on whom the rest of the population are completely dependent. Against this background, the

<sup>89</sup> Cf. also Avineri, *Hegel's Theory of the Modern State*, 134, who characterizes the three modes of relations in these spheres as 'particular altruism', 'universal egoism', and 'universal altruism'.

<sup>90</sup> Cf. chap. 4.4 of this volume.

<sup>91</sup> Habermas, *Theorie des kommunikativen Handelns*, vol. 2, chap. VI.

<sup>92</sup> Cf. Oscar Wilde's famous line, 'What is a cynic? A man who knows the price of everything and the value of nothing' (Lord Darlington in Act III of *Lady Windermere's Fan* (London: Methuen, 1939)).

introduction of more negative liberty for all has, in Smith's eyes, overall positive effects.

First of all, Smith's reflections on the history of Europe include a story about how economic liberty and markets *themselves* contribute to the spread of rights and of impartial government. Not only does the free market help to break the power of the feudal lords, as they squander their fortunes on 'baubles and trinkets' instead of paying for retainers. The desire for luxury consumption, for which they need money, leads them to grant their tenants greater freedom in exchange for higher levies.<sup>93</sup> At the same time, self-government and an independent jurisdiction develop in the cities, as the burghers understand that this improves their ability to run their businesses.<sup>94</sup> Commerce thus introduces 'good government', first in the cities, and then in the countryside. According to this narrative, giving the market its proper space helps to ensure that the political realm functions according to the right principle, namely impartiality, which in turn secures the citizens' negative liberty.<sup>95</sup>

Giving all citizens personal rights and property rights—negative freedom—also helps to avoid the vices that marred feudal society. Having unequal rights and positions by birth, the members of a feudal society were likely to fall into typical behavioural routines: the masters would be arrogant and trample on the rights of their tenants, whereas the latter would be slothful and prepared to deceive their masters in any possible way. In a commercial society, in contrast, people relate to others as equals, that is, as more or less impartial spectators, or at least not spectators likely to be partial by force of their social position alone. Rather than adopting the vices that result from superiority or inferiority, they are more likely to behave according to principles that can be endorsed by an impartial spectator.<sup>96</sup> Whereas the members of feudal societies had their way of life determined by birth, the citizens of commercial society profit from the chances that the market offers for developing autonomy and have incentives to practise the 'bourgeois virtues'.

In turn, having autonomous citizens protects commercial society from the risk that the negative liberty of the market undermines its social cohesion. Smith is well aware that 'place', that is, social status, is 'the cause of all the tumult and bustle, all the rapine and injustice, which avarice and ambition have introduced into this world',<sup>97</sup> which indicates that incessant ambition can throw into disarray the private circles of sympathy. But truly autonomous citizens, who have gone through a successful moral education and acquired the 'noble firmness' and the 'sense of dignity and propriety' Smith describes, will not be driven by such boundless ambition. They will not, for example, sacrifice friendships and the well-being of their family for the sake of monetary gains. Nor do they pursue their self-interest in a thoroughgoing way, for example, violating property rights whenever the chances of discovery are low. Rather, they recognize the limits

<sup>93</sup> WN III.IV.10, LJ(A) 261.

<sup>94</sup> WN III.II.3ff., LJ(A) 256, LJ(B) 419ff.

<sup>95</sup> WN III.III.12, III.IV.4. On the relation between commerce and liberty in Smith (as well as in Hume and other 18th-century authors) cf. Winch, *Adam Smith's Politics*, 70ff.

<sup>96</sup> Cf. also Rasmussen, *The Problems and Promise of Commercial Society*, 124f.

<sup>97</sup> TMS I.III.2.8.

of self-interest and in particular the need to keep it within the bonds of justice. As Jerry Evensky emphasizes, Smith is well aware that if people behaved as rent-seekers all the time and towards everyone, the social order could only be kept up by force, which would make a *liberal* society impossible.<sup>98</sup>

The less a population consists of characters like the 'poor man's son', and the more it consists of enlightened, self-controlled agents, the lower is the risk that the negative liberty of the market will undermine the social ties of the private sphere which keep society together. The market, by rewarding bourgeois virtue, contributes to shaping such characters, but in order to ensure the education of all citizens, and to make sure that the bourgeois virtues are practised in an authentic way, state schools and moral education also have a crucial role to play. The characters that populate Smith's vision of commercial society are not the exceptional heroes of the ancient ideal of virtue, but neither are they dominated by an inauthentic, socially disruptive striving for ever more material goods.

In Smith's model, negative freedom is thus instrumental both for leading people towards a more autonomous life *and* for stabilizing the social whole within which they have these rights and liberties. Negative freedom thus leads to different aspects of freedom that have often been described as 'positive'.

This system, however, has one great weakness. The demolition of feudal structures by the market has not been perfect, and there are always social groups—the infamous 'merchants and manufacturers'—who want to translate their economic power into political power. As we have seen, Smith needs virtuous politicians and independent judges who remove the remnants of feudalism and protect the equality of rights against economic influence.<sup>99</sup> Sometimes fortunate circumstances may help to bring about improvements of the political framework, as when, in England, the king was weakened because there was no need for a standing army, or when Elizabeth I had no heir, which had made her prone to squander the royal treasure, further weakening the crown.<sup>100</sup> But if this is not the case, the only hope for improvement is that the sovereign and his counsellors be wise and virtuous, understanding the intricate workings of a commercial society and following the rules of the impartial spectator. Smith's own books are evidently meant to support the development of such political virtue, both by motivating individuals to acquire it—for example, in the praise of the 'prudence of the great general, of the great statesman, of the great legislator', which is described with great rhetorical flourish in the *Theory*<sup>101</sup>—and by providing insights into economic and political issues in the *Wealth*. But it seems that in the Smithian picture nothing can guarantee that there will be suitable characters at the head of states to take up this advice and to act accordingly, out of public spirit rather than self-interest.

In the Hegelian picture, negative liberty does not have this self-reinforcing power; his picture of civil society as socially disruptive already suggests that it is insufficient to guarantee social stability. His theory of the state has often been seen as dangerously illiberal and even as having paved the way for totalitarian

<sup>98</sup> Jerry Evensky, "“Chicago Smith” versus “Kirkaldy Smith”", *History of Political Economy* 37(2) (2005), 197–203.

<sup>99</sup> Cf. e.g. WN V.I.II.25.

<sup>100</sup> LJ(A) 265ff., LJ(B) 418ff.

<sup>101</sup> TMS VI.I.15.

ideologies. But in a way, it can be understood as an answer to the problem with which Smith leaves us: how to secure the impartiality of the sovereign. In addition, for Hegel the state has much more 'to do', as it were, precisely because he does not build on the self-reinforcing tendencies of negative freedom that Smith describes. Bearing these points in mind, it is possible to provide a 'rational reconstruction' of Hegel's account of the state and of his claim that in it 'freedom comes into its supreme right'<sup>102</sup> that is understandable, and unsuspecting, from the point of view of modern liberalism. Rather than looking at the details of Hegel's constitution—which, as has been mentioned earlier, are not all endorsable from a contemporary perspective—what matters are the *functions* that the state fulfils in his account of *Sittlichkeit* and the ways in which it goes beyond the social relations of family and civil society.

Without the state, all social relations are based either on intimate love (in the family, where it takes on a legal and ethical form) or on instrumental reason (in civil society), none of which includes the will to sustain the social whole within which all these other relations take place. As has been mentioned, Hegel calls the institutions of civil society 'the external state, the state based on need'.<sup>103</sup> What is lacking in this 'external state' is a commitment of the citizens to see each other not only in instrumental, 'particular' ways, but to recognize each other as citizens, as members of a social whole that they want to maintain together. This is a fundamentally different disposition from the one people have in the legal system or in the market, where they defend their own private interests. A society without such a commitment could not be stable, Hegel thinks, as the individuals could at any time decide that their own interests are more important than the maintenance of the social whole and the recognition of the freedom of others.<sup>104</sup> The corporations, the social organizations that emerge in civil society, are limited in scope and thus can aim only at an end that is 'restricted and finite', namely the welfare of their members. The state, in contrast, is the community of all citizens, the 'absolutely universal end'.<sup>105</sup> As such, it aims consciously and systematically at the common good.<sup>106</sup> This differentiates it from civil society, in which the common good is brought about indirectly and unintentionally (if at all), through the 'invisible hand' of the market. The state 'knows what it wills and knows it in its universality'; it 'works and acts by reference to consciously adopted ends', and is thus the *self-conscious* ethical substance.<sup>107</sup> What differentiates the state from the family is that the good is realized not in the medium of feeling, but rather 'political virtue is the willing of the absolute end *in terms of thought*'.<sup>108</sup>

Thus, for freedom to be realized in a stable social whole, there needs to be a dimension of society in which individuals are *not* putting their own interests first, but are willing to accept the freedom of others and the maintenance of the social whole as values in themselves. As Patten argues, the *Sittlichkeit* of the modern state is the 'minimum of self-sufficient [not self-undermining] institutional

<sup>102</sup> PR §258.      <sup>103</sup> PR §183.

<sup>104</sup> This argument also stands behind his criticism of contract theories, cf. chap. 3, n. 153 of this volume.

<sup>105</sup> PR §256.

<sup>106</sup> PR §181ff., cf. Patten, *Hegel's Idea of Freedom*, 170ff.; Avineri, *Hegel's Theory of the Modern State*, 178.

<sup>107</sup> PR §270, Enc §535.      <sup>108</sup> PR §257, italics added.

structure' in which all aspects of freedom can be realized.<sup>109</sup> The state, in contrast to families or corporations, is a social unit that encompasses a *whole* society; it is self-sufficient in a way that single individuals or more limited communities could not be.<sup>110</sup>

The citizens' disposition in the state can be seen as a functional equivalent to two aspects of the Smithian model. On the one hand, it relates to Smith's 'sense of justice' which leads people to follow the rules of justice—which, ideally, are expressed in positive law—rather than always putting their own interests first and obeying the law only because of the threat of punishment. On the other hand, the political realm, with its aspiration to achieve 'universality', the principle of *Geist*, can be seen as a parallel to the Smithian legislator who takes political decisions from an impartial, 'universal' perspective. Structurally, there is thus a parallel between Hegel's notion of *Geist* as "I" that is "We" and "We" that is "I"<sup>111</sup> and the perspective of the impartial spectator: in both cases, the individual takes into account the perspective of others as equally valid, and knows that the others will do so as well. The Smithian legislator who embodies the perspective of the impartial spectator corresponds to the 'universal' sphere of the Hegelian state that stands above private interests and impartially serves the common good.

As is well known, the emphasis that Hegel puts on the necessity of such a 'universal' element in a society has to do with the experience of the French Revolution and its slide into terror. Hegel analyses these events as the 'absolutizing' of an individualistic notion of freedom which led to the 'fury of destruction', because it did not in itself contain any means for creating stable social structures.<sup>112</sup> But Hegel's emphasis on the state also has to do with his picture of the market; for a society that is not at the brink of revolution the individualistic dispositions and the socially disruptive effects of the market may indeed be the greater danger. The Hegelian market is a disruptive, Dionysian play of forces, more similar to the struggle of all against all in a state of nature than to the harmonious Smithian win-win game in which one can gain only by furthering the interests of others. It creates luxury and poverty, both of which tend to corrupt people's morals, rather than equalizing incomes and lifestyles, as in the Smithian picture. Although the Hegelian market also contains element of 'universality' such as the 'invisible hand', and is tamed, to some degree, by the police and the corporations, its most basic feature is to bring chaos rather than order into society. With this picture of the market—which Hegel nevertheless endorses as the realm of subjective freedom—it is quite plausible that there needs to be some other social sphere in which people encounter each other in a different way. For Hegel, this is the political realm of the state.

<sup>109</sup> Patten, *Hegel's Idea of Freedom*, 37, 164f., 181ff. Patten also points out (166) that this idea does not imply that all institutions that Hegel suggests as part of the state are needed to realize this idea, which is certainly right. Cf. similarly Wallace, 'How Hegel Reconciles Private Freedom with Citizenship'.

<sup>110</sup> Cf. e.g. PR §256 and Hotho, 565, where Hegel notes that the state and the family have developed much earlier in history than civil society. On the self-sufficiency of the state in contrast to the family and civil society see also Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right*, 229.

<sup>111</sup> PS #177.

<sup>112</sup> PR §5, cf. PR §5Z and PS #582ff. for his detailed account of the French Revolution.

The emphasis on 'Hegel the communitarian', however, risks overshadowing the fact that the *end* of this state is a genuinely liberal one.<sup>113</sup> Whatever else it might also be in terms of the state's *own* good,<sup>114</sup> a crucial element of the state's goals is the realization of the freedom of the individuals.<sup>115</sup> The 'universal end' of the state is realized in and through the 'particulars', that is, its individual citizens. It is worth quoting Hegel at length on this:

The state is the actuality of concrete freedom. But concrete freedom consists in this, that *personal individuality and its particular interests* not only achieve their complete development and gain explicit recognition for their right (as they do in the sphere of the family and civil society) but, for one thing, they also pass over of their own accord into the interest of the universal, and, for another thing, they know and will the universal; they even recognize it as their own substantive mind; they take it as their end and aim and are active in its pursuit. The result is that the universal does not prevail or achieve completion *except along with particular interests and through the co-operation of particular knowing and willing*; and individuals likewise do not live as private persons for their own ends alone, but in the very act of willing these they will the universal in the light of the universal, and their activity is consciously aimed at none but the universal end. The principle of modern states has prodigious strength and depth because it allows the *principle of subjectivity to progress to its culmination in the extreme of self-subsistent personal particularity*, and yet at the same time brings it back to the substantive unity and so maintains this unity in the principle of subjectivity itself.<sup>116</sup>

The relation between individual and state is thus not one of complete submission or one-sided instrumentalization, but rather an organic unity in which the interests of the individuals are preserved.<sup>117</sup>

In this reconstruction, which remains uncommitted with regard to Hegel's wider metaphysical claims, his idea of the state can also appeal to contemporary theorists who ask about the possibilities of realizing, in concrete social structures, the conditions for individual freedom. The problem with the Hegelian notion of the state is not the general idea of a social unity that strives for the realization of the freedom of its members, nor the idea that one needs *some* institutions in a differentiated state whose representatives act with impartiality rather than following their own private interests—these can hardly be denied by liberal political theorists. What seems problematic is rather that Hegel seems to have assumed that this is usually the case, and thus that he does not say anything about the need for critical reflection and surveillance of the legal and political apparatus

<sup>113</sup> Muller rightly reminds us that Hegel was not only writing after the French Revolution, but also at a time when there was considerable danger of a conservative restoration, i.e. a slide towards a form of government in which negative freedom is precisely *not* secured and where government decisions are taken in ways that individuals could not endorse (cf. *The Mind and the Market*, 141, 148).

<sup>114</sup> The individuals might not be the *only* subjects of freedom in the state—as Neuhausser argues, the *state itself* as 'a living, self-reproducing system' realizes a kind of freedom that is different from the freedom that any human individual could achieve (*Foundations of Hegel's Social Theory*, 31, cf. also 144, 213). But it is no problem for a liberal reading of Hegel to admit this possibility as long as the individuals' rights are not *sacrificed* to this social whole. As Neuhausser shows, this is not the case, at least not at the end of world history, once the modern state is fully developed (*Foundations of Hegel's Social Theory*, 216ff., cf. also chap. 3, n. 48 of this volume).

<sup>115</sup> Cf. PR §129.

<sup>116</sup> PR §260, italics added.

<sup>117</sup> Cf. e.g. PR §272.

by the citizens.<sup>118</sup> Rather, the ‘universality’ of the state by and large rests in the hands of a small group of civil servants who represent the state and act in its name—and Hegel seems to believe that they will *always* act on its universal principles.<sup>119</sup> His trust in the professional ethos of this class—which he imagines as well-educated and trained in philosophy and the sciences—seems to be enormous, and also seems to be one of the reasons why he rejects parliamentary control and takes it to be sufficient if the executive reports to the monarch.<sup>120</sup> But without a rather substantial metaphysical story about why this should be so—more substantial than the reading of *Geist* I have provided—why should one believe that the civil servants will *always* have in mind the public interest, rather than their own interests? Hegel notes that civil servants need to earn an adequate salary so that their work is ‘freed from other kinds of subjective dependence and influence’.<sup>121</sup> But this again leads to the question about who judges their behaviour, and whether civil servants will really sacrifice ‘the selfish and capricious satisfaction of their subjective ends’<sup>122</sup> to the attainment of universal goals. As Rolf-Peter Horstmann polemically notes, it is a fallacy to assume that the state must embody ‘reason’ simply because civil society does *not*.<sup>123</sup>

Hegel would maybe reply that if the state does not act for the public good in true ‘universality’, it is not a real state; it is rather ‘a bad state’, ‘one which merely exists’.<sup>124</sup> But this shifts the problem to the question of how the ‘real’ state can be actualized.<sup>125</sup> One can recognize this problem, however—which, after all, also occurs in Smith’s account, in the question about the virtuous sovereign—without denying the importance of Hegel’s crucial insight: at *some* level in the organization of a social whole, there needs to be a principle of ‘universality’ that goes beyond the pursuit of individual interests. Without this, securing the basic rights and the negative liberty of all citizens becomes a matter of contingency.

One might object, however, that this is all very well, but not a question of *freedom*. These arguments, one might say, have to do with restrictions on freedom that are necessary for maintaining the social whole, but not with the notion of

<sup>118</sup> Cf. also Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right*, 282, who says that Hegel does not do sufficient justice to the possibility ‘that the law might be an ass, or, worse, a tyrant’.

<sup>119</sup> Cf. e.g. PR §294: ‘What the service of the state really requires is that men shall forgo the selfish and capricious satisfaction of their subjective ends; by this very sacrifice, they acquire the right to find their satisfaction in, but only in, the dutiful discharge of their public functions.’ Or Griesheim, 591, where he says about the civil servants that the ‘law in a state, the whole of the state, of the laws, sciences, arts etc. rest in them’. Cf. also Bernard Bourgeois (‘Der Begriff des Staates’, in Ludwig Siep (ed.), *Klassiker auslegen: G. W. F. Hegel, Grundlinien der Philosophie des Rechts* (Berlin: Akademie Verlag, 1997), 217–42, 240), on the close association in Hegel between the state and philosophy as the highest form of knowledge. If one does not share Hegel’s belief in the possibility of this kind of philosophy, this may also withdraw support from his account of the state.

<sup>120</sup> PR §289.

<sup>121</sup> PR §294.

<sup>122</sup> PR §294.

<sup>123</sup> Horstmann, ‘Über die Rolle der bürgerlichen Gesellschaft in Hegels politischer Philosophie’, 300f.

<sup>124</sup> PR §270Z.

<sup>125</sup> Ritter in fact argues that for Hegel modernity has *failed* to fulfil its aspirations, as it has not brought about the right kind of self-governing institutions (*Hegel and the French Revolution*, 45ff.).

freedom itself. For Hegel, however, true freedom consists not only in doing what one wants, but in wanting one's freedom. At the start of the *Philosophy of Right* he defines free will as the will that has 'itself as its content and aim'.<sup>126</sup> If a political community of the kind Hegel describes is necessary for the realization of freedom, then a free will can, and indeed must, endorse it. This relates to the question, raised earlier in the context of the corporations, about how to evaluate limitations on one's freedom that one imposes oneself, or of which one can recognize that one would choose them, even if one has first entered into them in less conscious ways. For Hegel, such limitations do not count as limitations of freedom if—and only if!—they in fact serve the preservation of one's own freedom: one is freer if they are present than if they are absent. If the freedom of the individuals is the main goal of the state, it is not a threat for them, but something they enter voluntarily, or rather—as they already live in a political community—come to see as the structure that makes their freedom possible. It is in the state that they can overcome their short-sighted, purely subjective interests and identify with the rational institutions of society. They can be in a relation of being 'with oneself in the other'<sup>127</sup> to the social whole, which Hegel describes as characteristic of freedom: if I am 'with myself in the other', the other is not a restriction, but something I can endorse, and so it is part of my own will.

Hegel calls membership in such a state 'substantive freedom', since it is a freedom that is more rational than the purely subjective freedom of the market: it includes the social conditions of its own existence and is not limited by them, but 'at home' in them. This freedom has a distinctly social dimension: the citizens recognize each other as free and rational individuals who can encounter each other in the realm of reason, not only in the realm of interests, and who are committed to furthering each other's freedom.<sup>128</sup> It is this mutual recognizing and being recognized in which individual freedom is socially realized:

Only in such a manner is true freedom realized; for since this consists in my identity with the other, I am only truly free when the other is also free and is recognized by me as free.<sup>129</sup>

On the other hand, the state is justified, and is the reality of freedom, *only* insofar as it meets the criteria for endorsability by rational individuals. Hegel calls it the 'right of the subjective will' that it does not recognize anything as valid which '[its] insight [does not] see as rational'.<sup>130</sup> It is a specific achievement of the modern protestant world to grant this right to subjectivity:

It is a sheer obstinacy, the obstinacy which does honour to mankind, to refuse to recognize in conviction anything not ratified by thought. This obstinacy is the characteristic of our epoch.<sup>131</sup>

<sup>126</sup> PR §15.      <sup>127</sup> Enc §24Z2.

<sup>128</sup> This has been emphasized in particular by Neuhaus, who uses the term 'social freedom' to describe this conception (*Foundations of Hegel's Social Theory*).

<sup>129</sup> Enc §413Z. This is related to the theme of embeddedness discussed in chap. 4: the Hegelian individuals can be free *and* embedded at the same time if they can rationally endorse the social relations in which they are embedded.

<sup>130</sup> PR §132.

<sup>131</sup> PR, Preface, 12.



Ideally, the state can be ‘ratified by thought’ as an institution that realizes the citizens’ freedom. It then does not appear to them as something ‘externally imposed’,<sup>132</sup> but as the ‘realization of their own essence or their own inner universality’.<sup>133</sup> In the state, the individuals are free *and* know themselves to be free.<sup>134</sup> They have ‘the consciousness that my interest, both substantive and particular, is contained and preserved in another’s (i.e. in the state’s) interest and end, that is, in the other’s relation to me as an individual’.<sup>135</sup> This is what Hegel calls ‘patriotism’: the fact that a citizen ‘habitually recognizes that the community is [his or her] substantive groundwork and end’;<sup>136</sup> in extreme cases, this also includes the willingness to sacrifice one’s life for the social whole.<sup>137</sup>

Interestingly, Smith, despite his focus on negative freedom, shares this thought that without a structured social whole liberty is not possible, and that the individuals must therefore be prepared to accept certain restrictions in order to maintain it. As already mentioned, he argues that the legislator should ban behaviour that poses a threat to the public, for example by mandating the erection of fire walls between houses, *although* this limits negative liberty.<sup>138</sup> Book V of the *Wealth* is an extended justification of taxation as necessary for maintaining the political system. In his discussion of the colonies, Smith argues that Ireland and America should help to pay for the debts of Great Britain, because they have been contracted in support of a government to which they owe ‘every security which they possess for their liberty, their property, and their religion’.<sup>139</sup> In one passage, Smith even comes close to a language of positive liberty—in the sense developed here—when he argues that ‘[e]very tax . . . is to the person who pays it a badge, not of slavery, but of liberty’, because it means that a person ‘is subject to government, indeed, but that, as he has some property, he cannot himself be the property of a master’.<sup>140</sup> Smith also argues that individuals must be prepared to expose themselves to ‘danger and to death’ not only in defence of their ‘liberty and property’, but also ‘in defence of [their] country, in the safety of which [their] own was necessarily comprehended’.<sup>141</sup> So the sense that there needs to be a political

<sup>132</sup> Raymond Plant, ‘Hegel and the Political Economy’, in William Maker (ed.), *Hegel on Economics and Freedom* (Macon, GA: Mercer University Press, 1987), 95–126, 109.

<sup>133</sup> PR §153, cf. Ver Eecke, ‘Hegel on Freedom, Economics, and the State’, 136.

<sup>134</sup> PR §153, §257, cf. Patten, *Hegel’s Idea of Freedom*, 197.

<sup>135</sup> PR §268.

<sup>136</sup> PR §268. There is a question, however, about the degree to which this ‘patriotism’ is supported by a rational endorsement of the state that stems from understanding its importance for modern freedom. Not all citizens will go through the long process of reasoning necessary for such an endorsement; what is important, however, is that they *could* do so. For discussions see e.g. Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right*, 196, 315ff., Wood, *Hegel’s Ethical Thought*, 217f.

<sup>137</sup> PR §324 and in particular §325.

<sup>138</sup> WN II.II.94.

<sup>139</sup> WN V.III.88.

<sup>140</sup> WN V.II.II.11. For a discussion see Eric Schliesser, ‘Adam Smith’s Benevolent and Self-Interested Conception of Philosophy’, in Leonidas Montes and Eric Schliesser (eds.), *New Voices on Adam Smith* (London: Routledge, 2006), 328–57, 347, who holds that for Smith ‘[o]ur freedom is bound up with our membership in political society’, which sounds extremely ‘Hegelian’.

<sup>141</sup> TMS VII.II.II.10.

community in which the institutions that maintain liberty are endorsed and supported by individuals can be found in Smith as well.

Smith does not, however, describe this as a *political* dimension of life.<sup>142</sup> The social ties that he mostly seems to rely on—the ‘circles of sympathy’—have their place in the private rather than the political realm. As Michael Ignatieff remarks, in comparing Smith and Rousseau, the ‘neglect of politics’ is a strongly individualist strand in Smith.<sup>143</sup> Smith assumes that people have a natural tendency to submit to authority,<sup>144</sup> which he considers problematic from a moral point of view,<sup>145</sup> but in the end praises as a wise contrivance of nature, as ‘the distinction of ranks, the peace and order of society, would rest more securely upon the plain and palpable difference of birth and fortune, than upon the invisible and often uncertain difference of wisdom and virtue’, which the ‘undistinguishing eyes of the great mob of mankind’ could never perceive.<sup>146</sup> In this respect, Smith turns out to be *less* liberal than Hegel, relying on natural mechanisms rather than making ‘the will . . . the principle of the state’.<sup>147</sup>

One can thus understand social freedom as the membership in a social whole whose laws and regulations make freedom possible and which one can therefore endorse as rational. This model of freedom, shared by Smith and Hegel, may not be sufficient from today’s perspective, and I will discuss its relation to contemporary accounts of ‘republican’ freedom in the conclusion of this chapter. But far from being a dangerous notion prone to slide into tyranny, positive freedom in this sense is something one can endorse without compromising negative freedom—on the contrary, it serves to *secure* negative freedom.

In the Hegelian state, the relation between negative liberty and liberty understood as membership in a free society is thus different from the Smithian account. In order to *secure* negative liberty, liberty in the sense of membership in a rational state is needed. Where Smith builds on individual autonomy and a virtuous legislator to keep up the structures of society—and mentions the political dimension of communal life only in scattered remarks—Hegel explicitly introduces an additional sphere, the political realm, in which a kind of freedom is found that is collective, but that does not threaten, but rather secures, individual liberty.

## 6.5 CONCLUSION: THE CONTEXTS OF FREEDOM

Debates about freedom in political philosophy have often taken place at a highly abstract level, where different concepts were pitted against one another. As soon

<sup>142</sup> Apart from these passages Smith’s state looks like Hegel’s ‘external state, the state based on need, the state as the Understanding envisages it’ (PR §183), i.e. those institutions that stabilize the market economy and protect the rights of its most vulnerable members.

<sup>143</sup> Ignatieff, ‘Smith, Rousseau and the Republic of Needs’, 204.

<sup>144</sup> Cf. TMS I.III.3.

<sup>145</sup> TMS I.III.3.

<sup>146</sup> TMS VI.II.1.20.

<sup>147</sup> PR §258, cf. also PR §19. Elements of ‘naturalness’ can also be found in Hegel, but they relate more to the relation between the sexes and the different estates (cf. in particular his views of the agricultural estate, e.g. in PR §203). For a discussion see also Neuhausser, *Foundations of Hegel’s Social Theory*, 4f.

as one leaves the abstract level of conceptual analysis, however, and asks about the more concrete conditions for the realization of freedom, things become more messy, and it is hardly possible to focus exclusively on one notion of freedom without losing sight of other essential aspects of what it means to be free. As the comparison of Smith and Hegel shows, the character of the market and its relation to society plays an important role for determining how these different aspects hang together.

For Smith, the market and the private 'circles of sympathy' provide a social context in which the existence of economic liberty also leads to autonomy, which then in turn mitigates worries about the self-undermining tendencies of market society. This explains his strong focus on economic liberty and his almost complete silence on questions of political participation. Put crudely, Smith takes it that if only economic liberty is provided—and a few problems, such as the consequences of the division of labour, are fixed by political measures—a commercial society will take care of itself. His belief in the natural moral sentiments of human nature and in the benevolent design of the social cosmos supports this conviction. The tasks of securing social cohesion and of integrating the poor into society—important functions of the Hegelian state—have already been fulfilled by Nature's wise contrivances.

In the Hegelian picture, the focus is different. He values the subjective freedom people have in the market, but for him the market always threatens the social whole by leading to more unequal standards of living and by fostering a disposition to follow one's own interests that becomes dangerous when it comes at the cost of the social whole. The market economy may lead people some steps towards autonomy, but full freedom is only achieved in a social whole in which individuals recognize not only their own interests, but also the freedom of others and the importance of maintaining the structures of this social whole. When they have this disposition in addition to their subjective liberty, people are—in a sense that is more than metaphorical—freer, because they not only want, short-sightedly, their own freedom to do whatever they like, but rather fully understand what freedom for all citizens means under the conditions of a modern society, and so do not feel limited or alienated by the state's laws and institutions, but can accept them as emanating from their own free will.

Thus, there is a true core in the characterization of Smith as a defender of 'negative' and of Hegel as a thinker of 'positive' liberty. But this is due not so much to them having different ideas about how a state should or should not treat its citizens; on a practical level, their views are surprisingly similar. Rather, their accounts have different foci because the *contexts* of freedom that they describe are different. In the harmonious whole of the Smithian market society, economic liberty is all that is needed; other aspects of liberty, which Smith equally values, will then follow suit and the market itself will draw people towards one another and reinforce social stability. The chaotic, disruptive 'remnants of the state of nature' of the Hegelian market make it necessary to pay attention to the attitudes, dispositions, and institutions that can keep together a society that grants its citizens negative liberty. This is why there needs to be a political sphere in which freedom in the sense of participation in a rational social whole is explicitly secured. How one sees the market thus plays an important role for how one sees the role of government, and the relation between different aspects of freedom.

Drawing these distinctions helps us to address important contemporary questions about the market and freedom. In both Smith and Hegel there is a sense that not only economic liberty, but also autonomy can be strengthened if people lead self-determined lives within a market society, but also that there are risks for the development of this autonomy. Admitting these contradictory tendencies helps to strike a middle path between a libertarian praise of the market as building independent, autonomous citizens, and a socialist condemnation of the market because of its debilitating effects, and to focus on the concrete institutions and conditions that can and should be changed in order to give people a chance to develop or deepen their autonomy, without compromising their negative liberty.

Smith's and Hegel's accounts also make clear, however, that economic liberty and autonomy always need to exist within a social whole that maintains the structures that make them possible. Some elements of this social stability may indeed come about on their own, in the ways Smith assumes. But to hope that most of the time, in most cases, providing negative liberty—and some state schools—will do the work does not seem adequate in today's societies, especially when one does not want to rely on deistic background assumptions. Active support of these structures will often be needed. Hegel's account of the state, read in a liberal way, points the way towards a *political* realm, and a kind of *political freedom*, that can be helpful for thinking about how to support and maintain these structures, although today they will look different from what they were in the 1820s. In fact, the contemporary revival of 'republican' notions of liberty sounds a similar note: republicans hold that not only the fact of not being interfered with, but also the guarantee of non-interference through democratic political structures, matter for liberty. This rules out the possibility of being free under a benevolent dictator or a generous slave-holder—what matters is one's status as a free citizen.<sup>148</sup> Authors like Pettit and Skinner emphasize that *being* a citizen is different from merely being granted a sphere of private freedom; and Smith and Hegel would certainly have agreed. However, there is also a decisive difference between these contemporary accounts of freedom and Smith's and Hegel's accounts. What matters for the latter is that the state is *rational*, or that it follows the perspective of the impartial spectator—then individuals can feel that its laws and regulations could have emanated from their own reasoning, and, therefore, that they are not obeying anyone but themselves and that no one is standing above them. Today, however, with much less trust in the powers of human reason in benevolent rulers, and in the homogeneity of human reason between different individuals, we would want to add democratic control of the government, a thought that is present only in rudiments in Smith and Hegel.<sup>149</sup> Focussing on real control rather than the alleged rationality or impartiality of the

<sup>148</sup> See e.g. Philip Pettit, *Republicanism: A Theory of Freedom and Government* (Oxford: Clarendon Press, 1997); *A Theory of Freedom: From the Psychology to the Politics of Agency* (Cambridge: Polity Press, 2001); Quentin Skinner, *Liberty before Liberalism* (Cambridge, MA: Harvard University Press, 1998); 'A Third Concept of Liberty', *Proceedings of the British Academy* 117(237) (2002), 237–68. For a discussion of Hegel and republican notions of freedom see also Michael P. Allen, 'Hegel between Non-Domination and Expressive Freedom', *Philosophy and Social Criticism* 32(4) (2006), 493–512.

<sup>149</sup> On Smith cf. his remarks on the usefulness of parliamentary control (chap. 2, n. 162), on Hegel cf. chap. 4.3 of this volume.

government, modern accounts avoid the controversial question about what it actually is that rationality or impartiality commands.<sup>150</sup> But the questions about the relation of the market to different aspects of freedom are as relevant for democratic states as for enlightened monarchies—especially in times in which the influence of markets on almost all aspects of life seems to be ever more growing.

The comparison between Smith and Hegel also delivers valuable insights about the different aspects of freedom as they are discussed in political philosophy. Many thinkers have focussed on finding one core concept of freedom, or the one concept that can best resist all potential abuses. But the variety of aspects of what it means to be free seems to defy any simply unification. Autonomy, freedom as the absence of interference, authenticity, the status as free citizen, and the membership in a free society cannot be completely reduced to one another. Rather, they hang together in many complex ways. The lasting insight of Smith's and Hegel's accounts is not so much the search for one formula that could capture all that matters about being free in one notion. Rather, they look for ways in which different aspects of freedom can be combined, and how an optimal balance can be struck between them. We may not be satisfied with the balance they took to be optimal, or with what they saw as the limits of what is possible. But it seems worth following them in their research strategy, as it were: to take seriously the plurality of aspects of freedom and their complex relations rather than to look for one abstract concept that covers all of them. For even if we could come up with such a formula, all would depend on how it is spelled out in the different contexts of the social world we live in, and the different spheres in which we experience freedom or its opposites. What we can learn from the variety and subtlety of aspects of freedom in Smith and Hegel is the necessity to ask questions about freedom not purely in the abstract, but to lay open one's assumptions about the nature of these social contexts. As different as their accounts are, once one analyses them in detail one realizes that the differences in their views result more from their different views of the market than from their different opinions on the nature of freedom. The *contexts* of freedom matter—and this is true for debates about freedom in the 18th and 19th centuries, but also for the debates about freedom we have today. The historical experiences about what markets are, and can be, as well as other historical experiences about the social circumstances of the world we live in, need to inform our understanding of what it means to live in a free society. This may make our discussions messier and less elegant, but it will also bring them closer to the concrete questions about freedom, or the lack thereof, that need to be addressed in our societies.

<sup>150</sup> See e.g. Philip Pettit, 'Republican Freedom: Three Axioms, Four Theorems', in C. Laborde and J. Maynor (eds.), *Republicanism and Political Theory* (Oxford: Blackwell, 2008), 102–30, 119f.

## The Market in History

### 7.1 INTRODUCTION

In the previous chapters I have explored two visions of the market: Smith's serene picture of the free market as bringing justice, equality, social cohesion, and freedom, and Hegel's view of the market as a sphere of subjective freedom, but also as a chaotic, disruptive play of forces that needs to be tamed by other institutions. These visions still play a crucial role in how we think about markets today—many misunderstandings and also real conflicts between economists and other social scientists, and between conservatively and progressively inclined thinkers, have to do with the fact that they have in mind different pictures of the market, often along the lines first drawn by Smith and Hegel.

But these pictures are nevertheless based on texts from the 18th and 19th centuries. So it is imperative to ask what they can actually tell us about the market in today's world. In this concluding chapter I address the issue of markets and history. Smith and Hegel both provide detailed accounts of the historical developments that led to commercial society; these look very different at first glance, but there are also great structural similarities.<sup>1</sup> Although I do not aim at a complete overview of their philosophies of history, it is worth turning to these accounts for two reasons: firstly, they throw further light on what Smith and Hegel saw as the central reasons for endorsing commercial society. Secondly, they help us to address the question of how to understand economic phenomena in their historical context. For Smith and Hegel the dependence of markets on cultural and historical preconditions and the self-fulfilling nature of theories about the social world make it extremely problematic to conceptualize them in an ahistorical manner. Rather, all accounts of markets, including those that we have inherited from our intellectual tradition, need to be understood in the context of their time. A more historically situated approach, which takes into account the many and variegated forms that markets can take on, can help us to understand pictures of

<sup>1</sup> The histories written by Smith and Hegel are histories written by white, European, protestant males, in an age in which the awareness of what this implies was not very much developed. However, I am not going to discuss to what degree Smith and Hegel should be made responsible for the biases in their views (for a discussion of the charge of Eurocentrism against Smith see Eric Schliesser, 'The Philosophical Subtlety of Smith', *Adam Smith Review* 4 (2008), 231–7; for Hegel see e.g. Andrew Buchwalter, 'Is Hegel's Philosophy of History Eurocentric?' in Will Dudley (ed.), *Hegel and History* (Albany: State University of New York Press, 2009), 87–110).

the market as pictures, and thus to disclose the possibility of alternative pictures and alternative realities.

## 7.2 TWO WAYS OF DESCRIBING HISTORY

Both Smith and Hegel wrote accounts of world history up to the time in which they lived. At first glance, these look very different. Smith's account, as presented in book III of the *Wealth* and also, with a different focus, in the *Lectures*, seems to be mainly an economic narrative driven by material interests, whereas Hegel's focus in the *Philosophy of History* is on cultural and political developments.<sup>2</sup> But Smith's and Hegel's accounts, as well as the ways in which they use history in their systems, are quite similar at a structural level, which is not so surprising given that for both authors Steuart, Montesquieu, and Rousseau were important sources. Smith and Hegel reflect about the different stages in which humanity develops, as sequences of socio-economic cultural units in which institutions, beliefs, and values are interrelated. For Smith, these are the 'four stages' of hunters, shepherds, agriculture, and commerce;<sup>3</sup> for Hegel, they are the 'world-historical realms' of '(1) the Oriental, (2) the Greek, (3) the Roman, (4) the Germanic Realm'.<sup>4</sup> In both cases, the last period includes the modern world of their own time, and the earlier periods are described in ways that make clear that they are inferior to, and must therefore give way to, the latest stage. It is obvious that Smith's and Hegel's accounts exhibit a certain 'Whiggishness': their historical narratives play an important role in their defence of modern society, and seem to be constructed with this purpose in mind. They are narratives about how central features of human nature, and central conditions for human flourishing, are made available to an increasing part of the population and, in the final stage, to all members of society.

<sup>2</sup> In the secondary literature, the two accounts have been discussed in ways that have not done much to bring out their commonalities. With regard to Smith, the debate centres on the question as to whether, or to what degree, he is an economic determinist (for an overview of this debate see e.g. John Salter, 'Adam Smith on Feudalism, Commerce and Slavery', *History of Political Thought* 13(2) (1992), 219–41). J. G. A. Pocock has recently argued that nothing that Smith wrote 'is a history of anyone or anything' (J. G. A. Pocock, 'Adam Smith and History', in Knud Haakonssen (ed.), *The Cambridge Companion to Adam Smith* (Cambridge: Cambridge University Press, 2006), 270–87, 271). This position is too extreme; in the same volume Sen and Rothschild emphasize the central role of historical narratives in Smith (Rothschild and Sen, 'Adam Smith's Economics'). For a criticism of Pocock see also Schliesser, 'The Philosophical Subtlety of Smith', 233ff. With regard to Hegel, the philosophy of history has often been part of the grand debates about how to understand his philosophy in general—as conservative or liberal, Christian or atheist. A special focus has been on Hegel's claim about the 'end of history', which Francis Fukuyama has tried to revive for contemporary political thought (*The End of History and the Last Man* (London: Hamish Hamilton, 1992)); for a discussion cf. e.g. McCarney, *Routledge Philosophy Guidebook to Hegel on History*, 169ff.

<sup>3</sup> LJ(A) 14.

<sup>4</sup> PR §354.

Smith's account of history has been characterized as 'Theoretical or Conjectural' history by his student Stewart.<sup>5</sup> Among the Scottish literati, this method was seen as 'scientific' and as conforming to the 'experimental method'.<sup>6</sup> It explains how certain 'artificial and complicated'<sup>7</sup> institutions or customs have developed from very simple beginnings, building on the assumption that human beings, on average, act in predictable ways, and that institutions arise from the sum of people's actions as intended or unintended consequences. The historian thus builds on considerations about the 'manner [in which] they [the persons in a situation] are likely to have proceeded, from the principles of their nature, and the circumstances of their external situation'.<sup>8</sup>

The 'principle of [human] nature' on which Smith mainly builds is the 'desire of bettering [one's] condition', which 'comes with us from the womb, and never leaves us till we go into the grave'.<sup>9</sup> It drives history, because it drives individuals, and it is through the decisions and actions of numerous individuals that history moves forwards. While it may seem that this desire is an ahistorical moment in Smith's account of history, an anchor that allows him to consider different epochs from a unified perspective,<sup>10</sup> it is important to note that it can take on very different forms in different settings. Individual conceptions of what 'betterment' consists in depend on the social and cultural contexts in which people live. The human motivations that do the work in Smith's account of history are not exclusively 'economic', but encompass a much wider range of factors: ambition, habits, or obedience to social norms are just as likely to influence human behaviour as are economic motives in a narrow sense, and it depends on the particular circumstances of a situation what behaviour will result.

This is not surprising, given Smith's understanding of human beings as social animals. After all, as has been discussed, even most economic motives are, for Smith, a consequence of the desire 'to be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation'.<sup>11</sup> But how one is seen by others depends not only on material wealth; it can be just as important to be seen as loyal, law-abiding, or courageous.<sup>12</sup> In addition, nothing implies that

<sup>5</sup> Stewart, *Account of the Life and Writings of Adam Smith, LL.D.* 293; for a discussion cf. e.g. Christopher Berry, *The Social Theory of the Scottish Enlightenment* (Edinburgh: Edinburgh University Press, 1997), 64ff.

<sup>6</sup> Cf. e.g. H. M. Hopfl, 'From Savage to Scotsman: Conjectural History in the Scottish Enlightenment', *The Journal of British Studies* 17(2) (1978), 19–40, 26ff.

<sup>7</sup> Stewart, *Account of the Life and Writings of Adam Smith, LL.D.*, 292.

<sup>8</sup> Stewart, *Account of the Life and Writings of Adam Smith, LL.D.*, 293.

<sup>9</sup> WN II.III.28.

<sup>10</sup> Fleischacker, for example, understands Smith's 'transhistorical account of human nature' as a 'methodological device' for interpreting history (*On Adam Smith's Wealth of Nations*, 64). Cf. also Berry's discussion of Hume's account of history, which he contrasts with Hegel's historical understanding of human nature. As he argues, the assumption of a common human nature was shared by other writers of the Scottish Enlightenment, including Smith (cf. *The Social Theory of the Scottish Enlightenment*, 68f., see also Andrew S. Skinner, 'Natural History in the Age of Adam Smith', *Political Studies* 15(1) (1967), 32–48, 41f.). Arguably, however, this common human nature only relates to very general features and has to be seen in conjunction with the changes in the historical context.

<sup>11</sup> TMS I.III.2.1.

<sup>12</sup> For the variety of motives that play a role in people's decisions cf. also Smith's discussion of wage differentials in WN I.8, which includes factors such as investment in education, (dis)agreeableness,



Smith restricted these reasons for action to strictly egoistic ones; he mentions, for example, 'the pride of family distinctions' as a motive.<sup>13</sup> And as human motives are a combination of desires and beliefs, the latter also play a role in explaining human behaviour and hence human history. For example, the 'popular notion' that a country should have a positive balance of trade had a considerable influence on the European history of the 17th and 18th centuries.<sup>14</sup> As Sen and Rothschild emphasize, Smith's understanding of rationality and motivation is thus very different from that of the mainstream of modern economics: 'Rationality is an exercise of reasoning, valuation, and choice, not a fixed formula with a pre-specified maximand'.<sup>15</sup> Stigler's talk of the 'granite of self interest'<sup>16</sup> on which the *Wealth* is built is true only if one understands 'self-interest' in a very wide, and ultimately purely formal, sense—it only means that people usually do what they think is the best thing for them to do. What this is very much depends on the historical context.

In addition, the desire to 'better one's condition' interacts with other human propensities, such as the propensity to 'truck, barter, and exchange'<sup>17</sup> or the habitual submission under established authorities,<sup>18</sup> adding additional levels of complexity. This means that history cannot be predetermined in any strict sense. Smith's account has been characterized as 'soft determinism': there are certain tendencies which prevail in the historical development of societies, but there is no strictly determined path, and chance can play a role as well.<sup>19</sup> A hard determinism of physical causes would, in fact, be incompatible with European history as Smith analyses it: it departed considerably from the 'natural' path, according to which the stages of hunting, shepherding, and agriculture are followed by the development of trade and commerce, from subsistence to luxury goods.<sup>20</sup> In European history, which Smith calls an 'unnatural and retrograde order',<sup>21</sup> the rather mature societies of Greek and Roman antiquity went into decline and were overrun by 'barbarian' tribes. Europe fell into a feudal state in which the landlords united political, economic, and military power.<sup>22</sup> In this situation the desire of bettering one's condition, which otherwise drives men to productive activity, led to dysfunctional behaviour and economic stagnation: without secure property rights it was not worth the effort to work hard, to invest, or to invent machinery; rather, as feudal serfs, the bulk of the population shirked whenever they could.<sup>23</sup> It was a slow and tedious process until the rise of the towns and the introduction of trade

security, and the (dis)honour connected with a profession (cf. chap. 5.2 of this volume). Cf. also WN II. III.40 on reputation as a motive for action that can override economic interest.

<sup>13</sup> WN III.II.4.

<sup>14</sup> WN IV.I.5ff.

<sup>15</sup> Rothschild and Sen, 'Adam Smith's Economics', 361.

<sup>16</sup> Stigler, 'Smith's Travel on the Ship of the State', 265.

<sup>17</sup> WN I.II.1.

<sup>18</sup> Cf. e.g. LJ(A) 318.

<sup>19</sup> E.g. Haakonssen, *The Science of the Legislator*, 186f. As an example of chance, Haakonssen quotes Smith's discussion of Queen Elizabeth I not having an heir, which made her less careful about preserving the royal fortune, so that future monarchs had to trade off some of their power to the House of Commons for receiving money from them (LJ(A) 270f.).

<sup>20</sup> WN III.I.3.

<sup>21</sup> WN III.I.9.

<sup>22</sup> WN III.IV.7.

<sup>23</sup> Cf. LJ(B) 522f., WN III.II.7ff.

brought the rule of law to the whole population, and in many European countries this process was by no means completed in Smith's time.

What makes the 'natural' 'progress of opulence' superior to the 'unnatural' one for Smith is also what makes commercial society superior to other social orders: it allows for the participation of *all* members of society in an economy in which they can 'better their condition' in productive ways, arriving at a level of 'opulence' that allows them to live safely and to enjoy certain luxuries.<sup>24</sup> In commercial society the 'desire of bettering [one's] condition is channelled in the right ways. It is thus no accident that Smith looks at history through the lens of this desire; his theory about how to organize a society in which everyone can flourish functions against the background of his historical account of the unproductive ways in which other social forms channel human energies, and vice versa.

The civilizing process also creates other goods: progress in the arts and sciences,<sup>25</sup> more 'civilized' manners such as less cruel punishment,<sup>26</sup> and, ideally, fewer international tensions because all countries are connected through trade.<sup>27</sup> The situation of women improves,<sup>28</sup> and paternal authority is over time 'brought to a moderate and proper pitch'.<sup>29</sup> Secure living conditions and protection from arbitrary violence are available not only to those who can afford to pay for them, but become available to everyone. If all human beings have incentives to better their condition in productive ways, all human abilities, talents, and energies can flourish, and human nature can develop to its fullest—and in an ideal Smithian society this is true even for the poorest members of society. Once all these energies are released, a positive, self-reinforcing process can take place within the stable framework of commercial society.

While Smith's 'conjectural history' focusses on the forms that the desire to 'better one's condition' takes on in different settings, Hegel's 'philosophical history' or 'thoughtful consideration'<sup>30</sup> of history takes place at the level of *Geist*. It aims at proving, by looking at the empirical historical material, that history 'has constituted the rational necessary course of the World-Spirit'.<sup>31</sup> This means that Hegel never aims at a complete account of all that has happened; 'history' is for him almost a technical term. This is why he explicitly excludes peoples without states, pre-history, 'periods of happiness', and people without historiography, and restricts the geographical scope of world-history to the countries around the Mediterranean Sea and Europe.<sup>32</sup> Hegel is interested

<sup>24</sup> Cf. e.g. WN V.II.IV.6, where Smith mentions that tea and sugar have become available to the lower classes of Great Britain.

<sup>25</sup> Cf. e.g. HA IV.21, LJ(A) 337f.

<sup>26</sup> Cf. e.g. LJ(A) 118, 129f., 299.

<sup>27</sup> Cf. TMS VI.II.28, WN IV.III.1, IV.III.II.12ff., LJ(A) 390, LJ(B) 511. Cf. Hont, *The Jealousy of Trade*, chap. I, for a discussion.

<sup>28</sup> For a discussion see e.g. Stewart Justman, *The Autonomous Male of Adam Smith* (Norman: University of Oklahoma Press, 1993).

<sup>29</sup> LJ(A) 173, cf. LJ(B) 450.

<sup>30</sup> PH (Sibree), 8.

<sup>31</sup> PH (Sibree), 10.

<sup>32</sup> PH (Sibree), 26, 39, 59f., 61, 75; cf. also W. H. Walsh, 'Principle and Prejudice in Hegel's Philosophy of History', in Z. A. Pelczynski (ed.), *Hegel's Political Philosophy: Problems and Perspectives* (Cambridge: Cambridge University Press, 1971), 181–98, 183.

exclusively in the events that he takes to have contributed to the development of *Geist*.<sup>33</sup>

*Geist*'s development is humankind's path towards full, self-conscious freedom. It is this development that Hegel traces in the historical material: he writes history as the 'progress of the consciousness of freedom',<sup>34</sup> in a 'series of increasingly adequate expressions or manifestations of Freedom'.<sup>35</sup> But this development is not a peaceful growth; rather, *Geist* 'makes war upon itself',<sup>36</sup> moving in dialectic steps in which it tries to reconcile its own spiritual development and the development of the external world of customs and institutions, which, however, is also part of itself.<sup>37</sup> The central axis of this historical dialect is a narrative about the primordial embeddedness of *Geist* in the substantial unity of the Greek polis; its diremption ('Entzweiung') in the Roman empire in which, however, subjective freedom was to a certain degree secured by Roman law; and then the long process in which these two aspects of freedom came to be reconciled in the modern states of Protestant Europe.

Hegel's account of history, however, does not neglect the dimension of individuals trying to improve their situation. He holds that '*nothing great in the World* has been accomplished without *passion*'.<sup>38</sup> It is by the 'cunning of reason' that individuals thereby accomplish something that is larger than their immediate aims, and which advances the development towards freedom.<sup>39</sup> This notion is similar to Smith's 'invisible hand' and Kant's 'unsocial sociability', and it is likely that Hegel was influenced by them.<sup>40</sup> Importantly, however, it is a notion that can only be applied retrospectively: individuals do not know that they work towards a larger purpose, not even the 'world-historical individuals' through whose actions certain principles 'for which the time was ripe'<sup>41</sup> break forth.

The dialectical movement towards freedom leads to the modern state, where it comes to a rest, because the subjective and the objective conditions of freedom are here united in a stable social order in which the freedom of *all* citizens is secured. This is a central aspect of Hegel's infamous talk of the 'end of history': the dynamic set into motion by one-sided or otherwise unsatisfactory realizations of freedom cannot progress any further once the true freedom of all citizens has been reached.

So while Smith is interested in the expansion of opportunities for individuals to better their condition in socially productive ways within a framework of just laws, Hegel is equally interested in a process of expansion: the expansion of human freedom to its full realization for all members of society. This is why his focus is on

<sup>33</sup> Cf. PH (Sibree), 53; see also Karin de Boer, 'Hegel's Account of the Present: An Open-Ended History', in Will Dudley (ed.), *Hegel and History* (Albany: State University of New York Press, 2009), 51–68, 52f.

<sup>34</sup> PH (Sibree), 19.

<sup>35</sup> PH (Sibree), 63.

<sup>36</sup> PH (Sibree), 73, cf. also 55.

<sup>37</sup> Cf. Taylor, *Hegel*, 390f.

<sup>38</sup> PH (Sibree), 23, cf. also 25.

<sup>39</sup> PH (Sibree), 27, 33, cf. e.g. McCarney, *Routledge Philosophy Guidebook to Hegel on History*, 122f. for a discussion.

<sup>40</sup> Cf. e.g. Waszek, *The Scottish Enlightenment and Hegel's Account of 'Civil Society'*, 112f.

<sup>41</sup> PH (Sibree), 30. On world-historical individuals in general see PH (Sibree), 28ff.

the level of *Geist*, on the different ideas and principles of successive epochs that structured their social, economic, and cultural institutions according to the prevalent understanding of freedom.

Smith's and Hegel's accounts of history are thus more similar than they might appear at first glance. The difference lies in their way of looking at history, rather than in them seeing different things, as it were. While Smith focusses on the desire of 'bettering one's condition' and its concrete socio-economic consequences, Hegel looks at the different forms that the understanding of freedom, and the ideas and desires that flow from it, take on in different societies, and at how this leads to historical change. But what they have in common is that a central aspect of the answer to the question 'why is history progressive?' is the equalization and expansion to all members of society of goods that are seen as central for a flourishing human life. Their different focus thus parallels the different focus in their justifications of market society as superior to other social forms: 'opulence', the rule of law and the freedom of bettering one's condition in the case of Smith; the combination of subjective and objective freedom in the case of Hegel. The progressive narratives in Smith and Hegel thus intend to provide further arguments for the institutions of modern society, by showing that these principles could not develop fully in any of the other social forms that could be observed in the laboratory of human history. They fulfil a reconciliatory function, explaining why the modern social order is, and should be, as it is, and help to guide policies by showing why alternative models have not worked and what needs to be done in order to complete the realization of the principles of modern society. In Smith, this can also be observed in his rhetoric: by calling feudalism an 'unnatural' order he disqualifies its remnants, such as primogeniture and entail, as unfit for the 'natural' order of commercial society.<sup>42</sup> In Hegel, the historical narrative is similarly tailored to the theoretical needs of his system. For him, the category of 'naturalness' is not one that could do much work, because he sees *Geist* as the decisive determinant of the social world—but *Geist* is itself historical, which means that the way in which humans have looked at nature also changes over time.<sup>43</sup> Hegel's account therefore centres on the 'reasonableness' of the modern social order that combines the different aspects of freedom in a uniquely stable way. This also confirms what has previously been said about his view of the market: he looks at the market, and at the social world as a whole, through the lens of freedom, and evaluates institutions according to their contribution to a truly free life for all.

In comparison to how much they say about the history of commercial society, Smith and Hegel say little about its future. But this is not surprising, given that the historical trajectories they describe aim at showing the stability and superiority of

<sup>42</sup> As Eric Schliesser notes, the language of the 'natural' is 'obviously partly [used] for rhetorical purposes', as to 18th-century readers 'deviations from nature will have seemed corrupt and flawed' ('Some Principles of Adam Smith's Newtonian Methods in the Wealth of Nations', 45).

<sup>43</sup> This is a move that Smith never made: although his historical accounts contain numerous discussions about how the human sentiments change in accordance with changes in the social and economic surroundings, he holds on to a notion of 'naturalness' that keeps human reason and at least some human sentiments constant over time.

modern society. Future developments can take place *within* the framework of this society, or so Smith and Hegel seem to have thought.<sup>44</sup> This is by no means a simple task, especially if there are powerful interest groups and the market sphere is unpredictable and unruly—but it is an *immanent* form of critique, whose task it is to keep in place the good structures a society has arrived at and to defend them against the forces who work towards a slide back into less developed times. What remains to be ‘done’ by *history*, as it were, is for other countries to arrive at the good order of modern society as well. Interestingly, both Smith and Hegel look to North America as the ‘land of the future’ (in Hegel’s words) in which the principles of modern society could be realized without the ballast of the feudal past.<sup>45</sup>

The possibility of a decline of commercial society, or the need to transgress it towards new principles of organization in order to realize its values, is hardly mentioned in the works of Smith and Hegel. Smith briefly reflects on the theoretical possibility that a country might acquire ‘that full complement of riches which the nature of its soil and climate, and its situation with respect to other countries allowed it to acquire’, and argues that in such a case wages and profits would be very low.<sup>46</sup> But he quickly dismisses this scenario, arguing that ‘perhaps no country has ever yet arrived at this degree of opulence’.<sup>47</sup> Some commentators<sup>48</sup> have attributed a cyclical view of history to Smith, based on a remark in the *Lectures*, according to which any state will one day decline.<sup>49</sup> But it is more plausible that Smith, like Locke and Hume, was optimistic about the prospects for commercial society.<sup>50</sup>

As to Hegel, any question about the future of modern society seems problematic—it was he, after all, who argued that philosophy ‘always comes on the scene too late’ and cannot say anything about what the world ‘ought to be’ in the

<sup>44</sup> On Hegel cf. György Márkus, ‘The Hegelian Concept of Culture’, *Praxis International* 2 (1986), 113–23, 118.

<sup>45</sup> PH (Sibree), 86, where Hegel contends that America is the place where ‘in the ages that lie before us, the burden of the world’s History shall reveal itself’. Smith’s hopes for America turn around the fact that there, the ‘natural progress’ of opulence occurs in the right order: ‘[i]t has been the principle cause of the rapid progress of our American colonies towards wealth and greatness, that almost their whole capitals have hitherto been employed in agriculture’ (WN II.V.21). In addition, there is high demand for labour and thus wages are high (cf. e.g. WN IV.VII.II.3). As Skinner notes, ‘America . . . had acquired the status of an experiment which “confirmed” Smith’s theses’ (*A System of Social Sciences*, 227).

<sup>46</sup> WN I.IX.14.

<sup>47</sup> Cf. WN I.IX.15. Nor does he see a threat to rich, developed countries in the rise of poorer countries to wealth. This question—whether the rich countries must automatically fall back when their poor neighbours become wealthier—was hotly debated among the literati of the Scottish Enlightenment (cf. in particular Istvan Hont, ‘The “Rich Country–Poor Country” debate in Scottish Classical Political Economy’, in Istvan Hont and Michael Ignatieff (eds.), *Wealth and Virtue. The Shaping of Political Economy in the Scottish Enlightenment* (Cambridge: Cambridge University Press, 1983), 271–315. Smith, however, trusts that the division of labour would be able to maintain the riches of the ‘rich countries’ even when the hitherto poor countries would catch up (Hont, ‘The “Rich Country–Poor Country” debate’, 300).

<sup>48</sup> E.g. Robert Heilbroner, ‘The Paradox of Progress: Decline and Decay in The Wealth of Nations’, *Journal of the History of Ideas* 34(2) (1973), 243–62.

<sup>49</sup> LJ(B) 414.

<sup>50</sup> Cf. e.g. Haakonssen, *The Science of the Legislator*, 178.

future.<sup>51</sup> The meaning of this phrase and of Hegel's infamous claim about the 'end of history' have of course been much contested.<sup>52</sup> Does Hegel only want to say that when one writes history, one must end in the present, or is it a more substantive claim about the impossibility of further advancements in the development towards freedom?<sup>53</sup> With regard to the future of commercial society, this question takes on a more specific form: is the commercial society Hegel describes really the 'end' of the historical development towards freedom in the sense that it achieves the real freedom of all members? Doubts arise in particular with regard to the problem of the 'rabble'. As has been noted, Hegel brushes over it without offering any solution, and depending on how large the 'rabble' becomes, this may look like bleak prospects for commercial society.<sup>54</sup> Although he does not make it explicit, Hegel almost seems to invite the reader to ask whether the integration of the rabble does not require a new turn in the dialectical journey of mankind towards freedom. In any case, as long as not all members of society can enjoy subjective and objective freedom to as full a degree as is humanly possible, this would have to count as a challenge for Hegel's claim that commercial society as he describes it is the 'end of history', even of 'history' as he understood it.

### 7.3 CONCLUSION: UNDERSTANDING THE MARKET IN ITS TIME

#### 7.3.1 Economic history and general history

It thus becomes clear that we should not hope to find predictions about the future of commercial society—and hence also our own time—in Smith and Hegel. Rather, their historical accounts offer an opportunity for reflecting about the possibility of predicting economic developments at all, and about the relation between economic history and history in a broader sense. What Smith's and Hegel's historical accounts show is that commercial societies, and thus also markets, have a history. Even Smith's 'system of natural liberty', a formula which sounds as if it describes an ahistorical social order, had to develop in a long and complicated series of steps—and if things go wrong at some stage, as happened in European history, it becomes the more difficult to return to the 'natural' development. What people do in order to better their condition—the lens through which Smith looks at the historical material—depends on what is possible

<sup>51</sup> PR, Preface, 12.

<sup>52</sup> Cf. e.g. the papers in Will Dudley (ed.), *Hegel and History* (Albany: State University of New York Press, 2009).

<sup>53</sup> Cf. e.g. Daniel Berthold-Bond, 'Hegel's Eschatological Vision: Does History Have a Future?' *History and Theory* 27(1) (1988), 14–29, for a discussion of the 'deep-seated ambivalence' one can find in Hegel between an 'absolutist' and an 'epochal' understanding of the end of history.

<sup>54</sup> Cf. e.g. de Boer, 'Hegel's Account of the Present', 56f. De Boer seems to assume that a rather large part of the population become part of the rabble, so that there is a bifurcation of society into rich capital owners and a mass of paupers. It is not clear from the text that this is what Hegel means, as he seems to assume that a considerable part of the population is also organized in the other classes and in the corporations.

at a certain time,<sup>55</sup> but also on what individuals desire for themselves, and what ideas they have about themselves and their societies.

The fact that Smith takes into account such factors is why his analyses are so much richer than many later economic models in which human motives are reduced to a never-ending desire for money. But it is also why his theory is of a fundamentally different nature than most later theories. Although Smith argues for giving free rein to the powers of the market, because he believes in its beneficial consequences, he does not 'disembed' or 'absolutize' the market in a methodological sense.<sup>56</sup> He is well aware that what people do in order to 'better their condition' depends on historical, social, and cultural preconditions in so many ways that one cannot exclude these from one's theories. Factors like the high esteem people have for lawyers or doctors,<sup>57</sup> the 'pride of family distinctions' that may prevail over economic interests,<sup>58</sup> or the degree to which people take laws to be just and obey them,<sup>59</sup> are not just external addenda to the conceptualization of markets, but can play a role at their core.

This explains why any predictions about the future of commercial society that go beyond cautious guesses about general trends are difficult, if not impossible, to make. Economic history is narrowly intertwined with political, social, cultural, and even intellectual history, and Smith does not assume that there is a one-directional causality between them. He provides examples both of laws and institutions following economic developments *and* of economic developments being influenced by laws and institutions.<sup>60</sup> In the early stages of history the options of what political and social constellations would be possible may still have been rather limited, because the imperative of survival may have left little space for non-economic considerations. But in a well-functioning commercial society, these things are intertwined in an extremely complex way. One might even argue that the freer and more opulent a society is, the more people can follow political ideals and cultural trends—they are free to define for themselves what 'bettering their condition' means for them—and the less predictable the economic development becomes.

In Hegel's account economic and general history are similarly intertwined. The Greek polis, for example, was characterized as much by the slavery that shaped its economic life as by its political institutions. The most basic feature, however, of every 'national spirit' seems to be, for Hegel, how freedom is manifested. This basic understanding, which may not even have been fully explicit in earlier

<sup>55</sup> For a discussion cf. Salter, 'Adam Smith on Feudalism, Commerce and Slavery'.

<sup>56</sup> Polanyi, *The Great Transformation*, 43f., charges Smith with using a character type of his time—'economic man', with the propensity to truck, barter, and exchange—as an ahistorical model for explaining the market in abstract terms, forgetting the historical preconditions for this type of character. But if one takes into account Smith's historical writings and the many forms that the desire of 'bettering one's condition' takes on in them, it becomes clear that this charge is more appropriate against the standard cliché of Smith than against the historical Smith.

<sup>57</sup> WN I.X.I.17ff.

<sup>58</sup> WN III.II.4.

<sup>59</sup> Cf. e.g. WN V.II.IV.64, where Smith argues that smugglers are often in all other respects 'excellent citizens' and only violate laws that made something a crime 'which nature never meant to be so'.

<sup>60</sup> E.g. LJ(A) 14, 143ff., WN I.IX.15, III.I.3.

epochs, shapes the culture and institutions of a time. In modern society, however, human beings, or at least some of them, have become fully conscious of their own self-understanding and their own freedom. As William Maker emphasizes, Hegel's talk of the 'end of history' also implies that individuals do not take anything as given any more, that traditions do not bind them any longer, but that they can choose for themselves who they want to be, building on their common social history, but not determined by it.<sup>61</sup>

This means that there is another reason for why an exclusive focus on economic aspects of human life cannot capture the social reality, let alone predict the future developments of commercial society. As Charles Taylor has famously put it, translating into modern terms an essentially Hegelian insight about the self-consciousness of *Geist*: men are 'self-interpreting animals'.<sup>62</sup> We interpret both our own feelings and the reality that surrounds us, and shape them by actions that are informed by terms and concepts that are often taken from, or influenced by, theoretical accounts. Theories about what human nature and a just human society are, and what ideals we should aspire to, can become self-fulfilling, or self-defeating, or change the objects of their descriptions in other ways. As Taylor puts it, we cannot understand our practices 'in abstraction from the language we use to describe them, or invoke them, or carry them out'.<sup>63</sup> There is no 'outside' perspective, and the conceptual tools we use to describe social reality can shift as we do so. This means that prediction is 'radically impossible'—we do not have the terms that will be adequate to characterize the future we face right now.<sup>64</sup> Hegel's phrase about the 'owl of Minerva', if understood in this way, is no pessimistic acceptance of an unchangeable fate, but an insight into the relation between theory and reality when the object of theorizing is not unchanging nature, but the inherently dynamic social world of *Geist*, in which concepts and institutions, conscious and unconscious ideas, are interwoven in infinitely complex ways.

Smith's and Hegel's accounts of the market as historically embedded thus present us with good reasons for thinking that a timeless, ahistorical theory of 'the market' will never be possible. Both the intricate connections between economic phenomena and political, social, and cultural developments and the self-interpreting nature of human beings, which implies the reflective character of all social theories, make this impossible. One might think that this implies that their accounts of the market cannot tell us very much for today—after all, the world has changed a lot since 1776, when the *Wealth* first appeared in print, and the 1810s and 1820s, when Hegel gave his lectures on 'objective spirit'. But this would be a rash conclusion. Rather, it is precisely *because* of these dimensions of human nature and human history that we need to become aware of their theories and the influence they have exerted on our history and on the categories in which we think about the social world. For *how* to connect to this intellectual heritage is

<sup>61</sup> William Maker, 'The End of History and the Nihilism of Becoming', in Will Dudley (ed.), *Hegel and History* (Albany: State University of New York Press, 2009), 15–34, esp. 19ff.

<sup>62</sup> Charles Taylor, 'Self-Interpreting Animals', in *Philosophical Papers*, vol. 1: *Human Agency and Language* (Cambridge: Cambridge University Press, 1985), 45–76.

<sup>63</sup> Charles Taylor, 'Interpretation and the Science of Man', in *Philosophical Papers*, vol. 2: *Philosophy and the Human Sciences* (Cambridge: Cambridge University Press, 1985), 15–57, 33.

<sup>64</sup> Taylor, 'Interpretation and the Science of Man', 55ff.



to some degree a matter of choice—it is one of the ways in which self-conscious human beings are free.

### 7.3.2 ‘A picture held us captive’<sup>65</sup>

As has been argued in chapters 4 to 6, whether one adopts Smith’s or Hegel’s views of the market makes a difference for how to think about core themes of political philosophy. As two prototypes for how to think about the economic realm and its relationship to society as a whole, they still play a central role and have an ongoing relevance in today’s public discourse. Whether we see individuals as sovereign traders of human capital or as constitutively formed by their professional identities has a major impact on how we conceptualize the relationship between individual and society. Whether or not we think it makes sense to apply the notion of desert to the market makes a difference for how we evaluate inequalities of income and differential achievements in the market. Whether we think that the market can help to fight poverty, or in fact creates it, influences the range of policies we take into consideration when thinking about social justice and equality. How we judge the impact the market has on the chances and risks for individual autonomy and on social cohesion and political participation, plays a role when we ask what freedom consists in, and how our societies can come closer to fulfilling the promise of freedom for all. The very language in which we talk about these things is imbued with the theoretical accounts we have inherited from the past, and notably from Smith and Hegel. The very way in which we look at social realities—which data we collect, which aspects of human behaviour we think worthy of consideration—is predetermined by whether we put on ‘Smithian’ or ‘Hegelian’ (or yet another theoretician’s) spectacles. Many contemporary public discourses are structured around these two models; almost as if Smith’s or Hegel’s metaphysical background assumptions were still shared. Many political commentators on the political right hold a picture of the market that is a caricature of the Smithian picture of the market as a solution to all problems, while many of those on the (non-communist) left seem to be unconscious Hegelians, with a blind trust in a benevolent state.

It is tempting to think that in the end only one of these pictures can be true. But the question ‘Smith or Hegel?’ has no clear-cut answer. As we have seen, both models heavily depend on metaphysical assumptions, and these underpinnings give these two thinkers the optimism to make rather general and ambitious statements about the institutions they favour: the free market in Smith’s case, and the reasonable state in Hegel’s case. If one abstracts from these background assumptions, one seems to get lost in the wealth of empirical evidence on how different the structures of different parts of the economic and political realm can be—and many of these complexities can in fact also be found in the details of Smith’s and Hegel’s text, although not in their more pithy statements. Different markets in different goods, at different points in time, can look very different.

<sup>65</sup> Ludwig Wittgenstein, *Philosophical Investigations* (Oxford: Blackwell, 1958), §115.

Even with regard to one particular market, statements about it being more 'Smithian' or more 'Hegelian' are often only crude approximations.

But what matters is not so much whether we can find instances of typical 'Smithian' or 'Hegelian' mechanisms and institutions in today's market economies. What matters more is to recognize that *all* ways of looking at the economic realm are informed by theories and heuristics. Smith's and Hegel's models have entered our consciousness at a deep, often implicit level. As such, they have become part of the way in which we look at the social world, and the intuitive judgments we make about it. We often take them to be reality, *tout court*—and are quick to conclude that those who do not understand that *this* is how things really are must have misunderstood something. Often, we do not recognize that our mental frameworks with which we look at the world are, after all, only models—theoretical accounts, often accompanied by some memorable metaphors, that have been developed at certain points in time, by certain thinkers, in order to illuminate certain aspects of reality and to answer certain questions.

And these models and theories have a historical context themselves. This does not mean that they could not teach us something for today's problems. But it means that we need to be aware of their historical context in order to understand them correctly, and in order to recognize that there are different ways in which we can refer to them. Only then can we fully unlock the liberating potential of the inquiry into our intellectual history.

Smith wrote at a time in which he saw much of his ideal social order already realized, at least in the Great Britain of his day, but he also was aware that much remained to be done. It is the foil of the 'mercantile system', which he saw as one of the most dangerous ideologies of the day, that makes clear why he puts so much emphasis on the emancipating power of the free market. Observing how workers were oppressed by guild regulations and apprenticeship laws, he argued for setting them free, and for abolishing hindrances to productive investment such as primogeniture and entail. Today, however, we need to ask whether the situation is such that we should focus on Smith's 'free market' side, or rather on his 'anti-mercantilism' side—and even a superficial glance at the structure of, say, the global financial industry strongly suggests the latter. When we consider his philosophical system in its totality, in the historical context of his time, we can see that only some of his theses have been transmitted through the centuries, and that others have been forgotten—but also that they might be worth retrieving, given today's state of many market societies. The criticism that needs to be raised today will not take on the same form as that which Smith raised against his 18th-century opponents, but it can still be inspired by it, and it can help to break the naïve reclamation of his name for ideas which he might not at all have supported. The same holds for the ways in which we can relate to Hegel's account of the market. Writing half a century after Smith, his awareness of the dangerous, disruptive nature of markets is much more developed—and yet we can learn from this aspect of his thinking just as much as from his insights into the intimate connection between free markets and subjective freedom.

This is why intellectual history and systematic political philosophy should not be seen as two completely separate issues: the ideas of past thinkers have become part of our inheritance, they shape our perception of the social world, and they enter into our moral reflections, sometimes openly and sometimes as hidden

intellectual undercurrents that shape our pre-theoretical intuitions. But there are no 'foundations' in the 'nature' of economic phenomena on which theorists could build—all concepts that we use for 'the market', all metaphors and semi-conscious images we associate with it, have a history, and are formed in relation—sometimes in contradistinction—to this history and the intellectual heritage it has given us. To become aware of this intellectual history means to become more aware of how we have come to see the world in the light in which we see it today. And this opens up the possibility of seeing it differently, and of changing it.

If social phenomena, including economic phenomena, are seen in a more historically situated way, we can give up the fantasy of being able to grasp some timeless truth about their nature that is hidden in some Platonic realm of ideas. Thinking about markets in more historical terms means that one has to take into account their variety, and their relations to cultural and social factors. It also means that one has to be cautious about the use of formal models—because very often the interesting question is not what the model as such says, but how it relates to reality, which parameters one uses for adjusting it, and whether it can illuminate real-life questions in useful ways. And it means that the self-interpreting nature of human beings needs to be taken into account—as theorists, we need to know that we never theorize about a reality of 'brute' facts, but about a reality shot through with elements of earlier theories that we cannot understand without taking these into account, implicitly or explicitly. This is why markets, and economic phenomena more broadly, should be an object of study also for political philosophers, who often take themselves to be trading in ideas, rather than in the messy realities of economic life—not only because our preconceived ideas about this messy economic life might, after all, influence the intuitions on which we build our philosophical theories, but also because not to do so would mean to neglect, and to surrender to the often one-sided analytic tools of economists and econometricians, what has become an essential part of our lives.

If we recognize that much of what we think about markets are in fact pictures, and that the social reality is influenced by these pictures in many and complex ways, this opens up the possibility of alternative pictures—which may, in the end, also lead to alternative realities. There is so much that is wrong with today's markets that many thoughtful individuals have given up any hope of improving what they see as a hopelessly flawed reality. But the question is whether there could not be an alternative future *with* markets that sees them in an alternative way, and puts into place an institutional framework within which they fulfil a more benign role than they have done in recent years. Would it be possible for markets, together with public institutions, to be more supportive of individual autonomy and personal growth? Could markets be used to satisfy not so much the demand for material goods, for which the natural resources are getting scarcer and scarcer, but immaterial goods, the growth of which is compatible with a finite earth? Could they support new distributive paradigms that leave behind the assumption, endemic to Rawls' theory of justice and to many others, that economic growth can allow us to give to the poor without having to take too much from the rich? Taking into account Smith's and Hegel's historical narratives, rather than dismissing them as mere Whiggism, can serve as an inspiration for asking how markets could unlock, to a greater degree than they do today, the emancipatory potential Smith and Hegel saw in them—but also as a reminder that markets

can never fulfil this role on their own, and that their effects crucially depend on the political, social, and cultural institutions within which they are embedded.

Today's markets have become so dominant that it may almost seem naïve to reflect on how they might be 'tamed' by other institutions. But this may also have to do with the fact that apart from their wholesale rejection, we have not seen many accounts of what an alternative reality of market societies could look like. Not to see that there might be alternatives paralyses criticism and leads to blind submission to what one takes to be the fate of one's age. But rather than pessimistically resigning, it seems worth investing in thinking about other pictures. Why not imagine a market that serves as distribution machine only for those goods that can easily be commodified, while *not* dominating our whole lives and inducing us to see so many other dimensions of life—education, hobbies, love, attention from others—also in terms of markets? Why not imagine a market for, say, financial services, that is a bit less dynamic and innovative, but avoids the kind of turmoil and the kind of economic pressures on political processes that we have seen in recent years? Why not imagine markets that are regulated a bit more strongly and that allow us to lead lives that leave a bit more time for the private 'circles of sympathy' and the objects of 'absolute spirit', art, religion, and philosophy? Why not remember that those who invented the pictures of the market as we know it did *not* have in mind a disembedded, all-encompassing reality that threatens to cut the ground from under the feet of all institutions, principles, and ideas that do not obey its dictates?

When one thinks about these questions, one hears the grumbling of one's realist friends in one's mind—can these pictures, models, or visions really change anything about the real world?<sup>66</sup> But ironically, it is precisely the impact that certain 'realist' ideas about the market had on the history of the last decades that proves them wrong. The neoclassical paradigm has completely overthrown earlier insights about, for example, the need for antitrust laws, and these arguments have also led to institutional changes with very concrete real-world consequences.<sup>67</sup> Meanwhile, however, we have become so used to certain images of the market and its irresistible 'forces' that we tend to forget that things have been different in the past, and that they might be yet different in the future. This is not to say that absolutely everything is wrong with the economic ideas of von Hayek, Friedman, and others of their ilk. But it means that we should not take their description of reality as the only possibility. Looking at the history of economic and political thinking, and at the history of economic institutions—none of which, unfortunately, is widely taught in mainstream economics courses—helps us to see that things might be different, and that the forms that markets can take on depend on the social, cultural, and intellectual climate in which they find their place.

<sup>66</sup> German-speaking readers might be reminded of the famous line by ex-Chancellor Helmut Schmidt that those who have visions should go and see the doctor. But then the waiting rooms would be quite full—Schmidt's quote sounds as if there was an alternative to having visions, but there is no thinking about social phenomena without visions, or at least without some normatively loaded theoretical elements. The realists' view of the social reality is not the opposite of a vision, but simply a rather gloomy vision of it.

<sup>67</sup> Cf. Colin Crouch, *The Strange Non-Death of Neoliberalism* (Cambridge: Polity Press, 2011), chap. 3, on how a different theory of the firm changed the way in which American courts looked at mergers between companies that might potentially lead to cartelization.

We should not, in short, give up the hope that markets might be something different from what they are today. Thinking about them is a messy affair, prone to misunderstandings and certainly much less elegant than the pure ‘ideal theory’ that one finds in much of the political theory of the last decades, and also in the abstract formalisms of mathematical economics. But we cannot avoid it if we want to engage more closely with real-life issues and the problems that mar our societies. Taking the market and our visions of it seriously, by understanding where our intuitions and implicit judgments about it come from, and by taking into account all the normative dimensions of the intellectual inheritance we have received, can be a first step on this path.

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